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John F. Dryden

ADDRESSES
AND PAPERS ON
LIFE INSURANCE
AND OTHER
SUBJECTS

B.
JOHN F. DRYDEN

President of The Prudential Insurance Co. of America
and United States Senator from New Jersey

1871-1907

NEWARK, NEW JERSEY
THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA

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ADDRESSES
AND PAPERS ON
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AND OTHER
SUBJECTS

BY
John F. Dryden
JOHN F. DRYDEN

President of The Prudential Insurance Co. of America
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1902-1907

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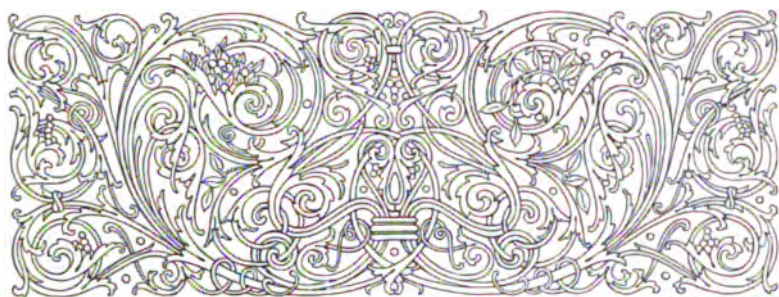
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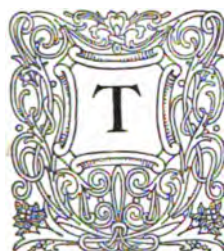
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INTRODUCTION



THE life insurance business in the United States of to-day has, within a single generation, attained to proportions wholly unanticipated in 1875, when The Prudential came into existence as the first institution to transact Industrial insurance in America. On the thirty-first of December of that year the number of legal-reserve Ordinary policies in force was only about 800,000, for the sum of approximately \$2,016,000,000, in contrast with 25,852,405 Industrial and Ordinary policies, for \$14,518,952,277, in force on December 31, 1908. This enormous and commendable progress has, in no small measure, resulted from the concurrent development of Industrial insurance, through which a vast number of the American people have learned systematic habits of saving and have come to realize the unquestionable value of family protection through life insurance with legal-reserve companies. The first Industrial insurance policy in America was issued by The Prudential on November 10, 1875, and out of the most humble beginnings Industrial insurance has developed into a social institution of universal importance, making effectively for human betterment. Most of the papers and addresses which are here reprinted have to do with the inception, progress, and

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results of Industrial and Ordinary life insurance. There are included, however, several papers on insurance economics, taxation, and supervision by the State and Federal governments, and to these have been added a memorial address on Abraham Lincoln and my address in the United States Senate on the Panama canal.

The address on "The Inception and Early Problems of Industrial Insurance" was contributed to the semi-centenary issue of *The Insurance Monitor* in 1905. The limitations of space precluded adequate consideration of the historical and biographical facts connected with the foundation of The Prudential, emphasis having been placed upon the social and economic conditions giving rise to the successful development of a new thrift institution in America. For a more extended account, however, the "History of The Prudential," published in 1900, may be consulted, but even in that work only scant justice has been done to the founders of the Company, who risked everything in what, at that time, was certainly a precarious venture in a new and untried field of insurance. It is to be hoped that some day a full account will be published, with biographical details of the early stockholders, directors, and executive officers, who, in hearty co-operation and with an abiding faith in its future, made of Industrial insurance a practical business success, a beneficent social institution, and of The Prudential one of the foremost life insurance companies in the world.

The review of "A Quarter Century of Industrial Insurance in the United States" was contributed to *The Record*, a New York insurance periodical, in 1902. In this address were considered briefly the progress which had been made since the founding of The Prudential, in 1875, and the remarkable results which had been achieved in the face of serious financial and other difficulties. After twenty-five years of unrelenting effort, and by painstaking attention to matters

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of minute detail of administration, the companies transacting Industrial insurance had attained a position where the future success of the business was clearly beyond a question of reasonable doubt. There were then about eleven million Industrial policies in force in the United States, which, by 1909, had increased to nearly twenty millions. With pardonable pride public attention was directed to the fact that The Prudential had been honored by the international jury of the Paris Exposition with a gold medal, specifically conferred upon it in recognition of the results achieved in the Industrial department, concluding with the remark that "to the general public endorsement of Industrial insurance as an effective method of family protection there has thus been added the unqualified approval of an international jury of experts, not only of life insurance as such, but of Industrial life insurance in its relation to public welfare and social betterment."

In 1904 Yale University inaugurated a course of lectures on insurance before the students of the senior class, and to this I contributed an address on "The Social Economy of Industrial Insurance," which was subsequently reprinted and widely distributed. In this address the place of Industrial insurance in practical economics and the utility of this form of wage-earners' protection as a modern thrift institution were considered at some length, emphasis being laid upon the value of Industrial insurance as a preventive of pauperism and as an effective aid in the protection of the family against the ever-present contingency of untimely death. Attention was also directed to the remarkable development of Ordinary insurance through the agents of Industrial insurance companies, initiated successfully by The Prudential in 1886. Perhaps no feature of the business is deserving of more thoughtful and sympathetic consideration than the unquestionable value of Industrial insurance as a method of teaching systematic habits of

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saving and the value of small but secure investments. The conclusions advanced were based upon many years of careful observation of the actual conditions under which wage-earners progress, gradually but surely, to a higher and more secure economic position; and as an aid in this direction I held that Industrial insurance had been of incalculable benefit to the nation at large.

During 1906 the New Jersey Legislature appointed a select committee of the Senate to investigate life insurance companies. My evidence before the committee included an extended statement of the practice of Industrial insurance in all its details as gradually improved and perfected in the course of years and in the light of an increasing and considerable business experience. The statement also contained observations upon the various and many suggestions which had been made from time to time for radical changes and innovations in Industrial insurance, and a brief account of post-office life insurance as practiced in England and its complete failure in actual experience. The review is a comprehensive answer to practically every controversial question raised in connection with public discussions of Industrial insurance, but, among other points, reference was made to the insurance of children and the fact that this practice had the official and unqualified approval of the foremost insurance commissioners and experts of the period. In my concluding remarks to the committee I urgently suggested that they make their investigation as exhaustive and complete as possible, so that the disturbed public confidence in life insurance institutions might be fully restored; but, conscious of the interested, partial, and often far from honest motives attacking the business of Industrial insurance, I said:

“While we cordially welcome any impartial inquiry into our affairs, we have opposed, and we shall continue to oppose, the unworthy efforts of so-called reformers to cast discredit

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upon life insurance management and methods in this State. We do not purpose to allow men actuated by selfish and unworthy motives wilfully and recklessly to destroy or seriously to injure a great and beneficent institution, which it has taken us thirty years to build up. But, for the legitimate object of any impartial, comprehensive, and qualified inquiry, we stand ready to meet any demands which you may make, furnish any facts which you require, submit any record which you wish to inspect, confident that, after you have completed your work, your views will coincide with those of our policyholders, that The Prudential has, from the outset to the present time, been managed with rare skill, with absolute integrity, and for the best interests of its millions of policyholders."

The select committee fully accepted these views, and in their final report there are no reflections upon the system of Industrial insurance, nor any strictures upon the opinion expressed at the time, that this form of insurance has now by experience been proven to be the only really successful and effective form of wage-earners' insurance in America.

The world-wide problem of an adequate provision for the aged poor, as made manifest by the many public discussions of State pensions and government and State insurance, suggested to The Prudential the issue of a new policy, adapted to the needs of people of moderate means, whereby at least a small but absolutely certain provision could be made for a definite period, or for the lifetime of dependent survivors. The Prudential having commenced the issue of Monthly Income policies in January, 1908, upon the urgent request of *The American Underwriter* I contributed to the September issue of that publication an article on "A Method of Providing with Certainty for Dependent Old Age." Life insurance has its inherent limitations, and it is out of the question that voluntary methods of insurance can ever approach in scope or intent a

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governmental policy of labor protection against widely different contingencies such as are comprehended under the German system of compulsory insurance. The economic position of the American nation would seem to preclude the necessity for such a policy, at least for many years. Meanwhile, as a much more desirable alternative, legal-reserve life insurance, both Industrial and Ordinary, continues to promote successfully the encouragement of thrift and secures effectively the desired self-protection against the financial problems arising out of the uncertainties of human life. If life insurance is ever to become a universal provident institution, I am confident that the Monthly Income policy of The Prudential will prove of immeasurable value in bringing about the ultimate realization of this ideal.

The progress of American life insurance, as said at the outset, has not only been remarkable, but truly astonishing when comparison is made with the corresponding progress in population, wealth, trade, industry, banking, transportation, and other evidences of material advancement. At the same time, when the actual extent of the business of legal-reserve life insurance is subjected to a critical analysis, it is found that there is still a large proportion of the population who are not insured at all, or who are insufficiently insured and therefore not adequately protected against the financial consequences of premature death and dependent old age. In 1908 I contributed an article on "The Problem of the Uninsured" to the *New York Commercial*, in which the number of persons insured under Ordinary policies was estimated at four and a half millions, and, adding to this twelve and a half million persons holding Industrial policies and subtracting half a million of persons estimated to hold both Industrial and Ordinary policies, the fact was brought out that in an aggregate of nearly eighty-six millions of estimated population in 1907, only sixteen and a half million persons were insured at that time with

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legal-reserve life insurance institutions. The object was to draw attention to the vast opportunities for successful agency effort and the corresponding duty of every insurance company to bring the knowledge of life insurance beneficence home to the people most in need of this form of protection.

A commercial enterprise of such magnitude as life insurance must necessarily offer many and attractive opportunities as a business career. In 1903 the *New York Tribune*, with commendable enterprise, published a series of articles on "Careers for the Coming Men," to which I contributed a brief address on life insurance as a career. In this article an outline was presented of the essential facts of insurance as a business from both the office and the field point of view, briefly stating the requirements for a successful career in the many departments into which the business of insurance is usually divided. My observations and suggestions were based upon many years of practical experience in the administration of a great life insurance institution and upon a personal knowledge of the success which has been achieved by men in the office and field administrations of The Prudential.

The economic aspects of life insurance have not received extended consideration from American economists and experts in public finance and taxation. Of all the grave and serious problems which confront American life insurance companies at the present time there is not one that transcends in practical importance the question of taxation. In an address on this subject delivered before the Association of Life Insurance Presidents, in 1908, there was presented for the first time the startling contrast between life insurance taxation in America and in certain foreign countries, in particular the German Empire. The annual tax burden on American life insurance in 1908 exceeded eleven million dollars, equivalent to over two per cent. of the premium income. My plea was for a systematic and thoroughly well-organized effort on the part of all the companies, through

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the education of their policyholders and their co-operation, to bring about on the one hand a reduction in the tax rate and on the other a well-organized resistance to efforts on the part of the different States to increase it. I suggested a minimum average tax of one per cent. of the gross premium income, which still would be proportionately very much greater and more of a burden upon the policyholders than the corresponding taxes paid by life insurance companies in Germany. My remarks concluded with the statement that "a uniform premium income tax of one per cent. would be a practical working basis which would more than repay the States for their supervision and protection, and would materially decrease the cost of life insurance to the millions of American policyholders." Acting upon the suggestion, a committee of the Association was appointed, with instructions to devise methods and means by which the suggestion could be carried into practical effect.

Closely related to the problem of over-taxation is the equally serious problem of over-legislation and over-supervision of insurance companies in the United States. For more than forty years the subject of Federal regulation of insurance has been a matter of public discussion, and as early as 1868 a bill had been introduced into Congress providing for the supervision of life insurance companies by the Federal government. The bill introduced did not, however, become a law, and subsequent efforts in this direction proved equally barren of practical results. After my election to the United States Senate, in 1902, I naturally took an active interest in this question, to which I had given much attention from the very outset of my connection with the business of insurance. From time to time the urgency of Congressional action had been brought to my attention by high-minded and absolutely disinterested men, but on careful consideration of their proposed measures it seemed to me that a still more comprehensive statute could be framed, one

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which, if ultimately submitted to the United States Supreme Court for a decision as to its constitutionality, would not be found wanting. The bill which I introduced in the Senate aimed specifically at a thorough method of supervision which would do away with the endless and costly multiplication of supervising duties on the part of the insurance departments of the different States. At the same time, the bill provided for a material increase in the power and control of the government over the companies engaged in interstate business, to secure on the one hand a larger amount of publicity, and on the other a more rigid adherence to well-framed statutory requirements. The bill was modeled as nearly as possible on the line of the national banking act, which for more than forty years had been found eminently successful, and all the other legislation extending the power of the Federal government over corporations engaged in interstate commerce was taken into consideration. The object and scope of the bill was fully explained in an address on "The Regulation of Insurance by Congress," before the Boston Life Underwriters' Association in 1904, and the subject was subsequently amplified in an address on "The Commercial Aspects of Federal Regulation," delivered at the annual meeting of the Newark Board of Trade on January 18, 1906. The first-mentioned address included much historical matter pertaining to the various efforts made to enact a Federal statute for the national supervision of life insurance companies, while the second presented figures and facts to prove that the bill was demanded by the commercial interests of the nation at large. I had taken pains, through extensive correspondence with commercial bodies, banks, merchants, policyholders, and others, to secure an impartial expression of public sentiment, and that expression was not only emphatically and unequivocally in favor of Federal regulation, but it equally endorsed my point of view that insurance, by

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modern conceptions, is an element of commerce, and as such is within the meaning of the commerce clause of the Constitution. While these efforts to secure the passage of the bill mentioned were unsuccessful, largely because of the disturbed state of the public mind on all matters pertaining to insurance, resulting from disclosures in the New York insurance investigation, I am confident that it is only a question of time when the interstate business of our insurance companies will be made subject to the effective regulation and control of the Federal government.

The most important national question which required consideration during my term in the United States Senate was the final type of the Panama Canal. As a member of the Senate Committee on Isthmian Affairs, I had an exceptional opportunity to become thoroughly familiar with both sides of the controversy regarding the type of canal, and I became convinced, after mature consideration, that a lock canal would be decidedly more advantageous to the nation. I participated in the debate on the question by the address, reprinted in this volume, on "The American Type of Isthmian Canal." In the meantime the controversy has been revived, but it is fortunate that we have in Mr. Taft a President thoroughly familiar with both the theory and the facts of the whole problem, so that there need be no apprehension that the plans for a lock canal will be changed to the more costly and less feasible sea-level proposition. I quote in this connection from a recent article by President Taft, which, better than any words of mine, defines the issue confronting the American people:

"The facts to-day are the same as they were when the lock type was adopted, namely, that it would take at least \$200,000,000 more of money and at least five years more of time to construct the sea-level type of canal 150 to 200 feet in width; that the canal when constructed would be dangerous for the passage of the larger vessels; and that the lock type of canal constructed at \$200,000,000 less in cost and five years less in time will be a better canal, a safer canal, and one in which the time of passage for large vessels will be even less than in the sea-level type. . . . Meantime the canal will be built and completed on or before the first of January, 1915, and those who are now its severest critics will be glad to have their authorship of recent articles forgotten."

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No facts have been brought to my attention which would warrant a material change of view on this important subject, and I am more than ever convinced that the only practical and feasible project for an Isthmian canal is the one to which the nation is deliberately committed—an American project based upon the opinion and experience of American engineers.

The short address on Abraham Lincoln and Alexander Hamilton, delivered before the East Orange (N. J.) Republican Club on the ninety-sixth anniversary of Lincoln's birthday, February 12, 1904, is included as a permanent evidence of my profound respect for both Lincoln and Hamilton as the foremost types of American ideals in constructive statesmanship. A lifelong Republican and a firm believer in party government and party responsibility, my course in public life has been so profoundly influenced by the teachings of these two men that it seems proper to give permanent expression to my appreciation in this volume. It is not generally known that Alexander Hamilton was the first to express the opinion that the regulation of insurance was within the meaning of the commerce clause of the Constitution, and to a not inconsiderable extent my views on this subject have been influenced by the argument of Hamilton in defending the constitutionality of the United States Bank. The same fundamental principles that make for enduring results in statecraft apply to the administration of business, and the influence of Lincoln and Hamilton on the acts of my public life has extended to the conduct of the great institution which I had the honor and privilege to establish in 1875, under the name of The Prudential Friendly Society, which was subsequently changed to The Prudential Insurance Company of America. Social institutions, like political institutions, can endure only if there is economic justification for their existence, and if they prove their social utility by successful adaptation and re-adaptation to the ever-changing conditions and circumstances of political and social life. As far

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as it has been within my power I have tried to carry this conviction into effect in every important act of my public and business life, and the following addresses and papers are, in a measure, a permanent record of what I have done and have tried to do to realize the aims and ideals of my earlier years.

A handwritten signature in cursive script, reading "John F. Dryden". The signature is fluid and elegant, with a large initial 'J' and a long, sweeping underline.

Bernardsville, N. J.
October 13, 1909.

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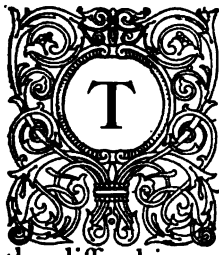
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CHAPTER I

**THE INCEPTION
AND EARLY PROBLEMS OF
INDUSTRIAL INSURANCE**

**PUBLISHED IN
THE INSURANCE MONITOR
1903**

THE INCEPTION AND EARLY PROBLEMS OF INDUSTRIAL INSURANCE



THE semi-centenary of the *Insurance Monitor* suggests a brief review of the inception and early problems of Industrial insurance, which may be said to have come into existence in England in 1853, as the result of a pointed reference in a parliamentary report on assurance associations.* This report, dealing with the difficulties and shortcomings of the life insurance companies of the period, had called attention to the great need of the industrial population for a more adequate and secure method of life insurance than had hitherto been furnished by the burial clubs and friendly societies. These societies had gradually increased in number, and their membership in 1850 was estimated at three millions, but, however useful and sound as social institutions, making for social betterment and promoting human intercourse, from an insurance point of view they were indeed in a most unfortunate predicament. Social in their origin, these societies had in the course of years assumed the character of mutual assurance societies, which, in addition to their philanthropic objects, *assured* to their members *a sum certain*, payable in case of sickness, incapacity in old age, or death. Organized almost exclusively by workingmen not familiar with mathematics or vital statistics, the benefits offered to members were invariably out of proportion to the periodical payments exacted in return, and less than a generation was usually sufficient to bring a society into bankruptcy, with resulting untold misery and unhappiness to the surviving membership. Yet so despotic is custom and so ready is the average man to

* Report from the Select Committee on Assurance Associations, London, 1853, p. 6.

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pay for his own experience, that, regardless of the failure of the old, new societies, with but slightly improved tables, would be formed to take their place; a common indifference to the fact that "There is no rule in moral mathematics that can convert three times three shillings into fifteen."

The management of the Prudential Mutual Assurance, Investment and Loan Association, a company organized in 1848 for the transaction of Ordinary business, took notice of the recommendation of the Parliamentary Commission, and in the year following, that is, 1854, commenced the issue of Industrial policies, or of contracts for small amounts of insurance with premiums payable weekly and collected from the houses of the insured.* The necessary tables of premiums were framed with exceptional actuarial skill, every phase of the subject was carefully inquired into, and so well was the preliminary work done that even now, after fifty years, Industrial insurance principles and practice in all essentials conform to the original conception of the managers of the Prudential in 1854. If want of security had been the chief defect of the old system of workingmen's insurance, the new system was developed in accordance with established laws of mortality and finance; and while failure had been the rule in the old, security for the payment of the contractual obligations was made the cornerstone of the new.

The first ten years of the history of the Prudential Assurance Company (this title having been adopted in 1861) form a most interesting chapter in the wonderful story of life insurance. In the face of much opposition and open hostility, the company carried forward its plan of extending real life insurance to the masses, in active competition with a primitive but slowly passing type of organization. By January 1, 1864, it was evident to the careful observer that Industrial insurance in England had come to stay. The income of the company was about sixty thousand pounds, which for the time

* History of the Prudential Assurance Company, London, 1880, p. 3.

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was a very considerable sum, and it required no special insight or discernment to anticipate a time when the new form of thrift would become general and include the larger part of the whole population. The secret of success was simple enough—the company made no promise which it could not keep, and when policies became claims they were promptly paid.

Only occasional references to the epoch-making experience of the English Prudential are met with in American insurance periodicals of this period. The *Insurance Monitor*, in 1860, had called attention to the need of life insurance protection for the poor, but without advancing a definite plan by which this much-to-be-desired end could be attained. Two events, however, occurred, which brought the name and success of the London company quite prominently to the notice of the American insurance managers and others interested in the development of life insurance in this country. A prominent London company, the International, which for some years had been transacting business in Massachusetts, found itself in difficulties with the Insurance Commissioner, Mr. Elizur Wright, who insisted on determining its solvency by means of a net valuation of its liabilities. By this method the company was found insolvent, and after a very animated controversy, in which some of the ablest actuaries of both countries participated, it retired from business, the English portion of its outstanding policies being reinsured with the Prudential of London.

The controversy, as such, but in particular Mr. Wright's critical review of British life insurance methods, in his annual report for 1865 and subsequent years, did much, if not most, to draw attention to the wonderful success of the Prudential, and to the curious, but extremely interesting, opposition to the company by the Chancellor of the Exchequer, Mr. Gladstone. While as early as 1773 attempts had been made to induce the British government to undertake the

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business of life insurance, it was not until 1853 that an actual effort was made in this direction.* No practical results had followed, however, and during the eleven years ending with 1864 not a single proposal had been received. The almost instantaneous success of the post-office savings banks, however, which had been established in 1861 to take the place of private institutions in a more or less insolvent condition, led Mr. Gladstone to assume the possibility of a corresponding opening for government life insurance. Accordingly, after much thought and in the face of a strong opposition, a measure was carried and became a law in 1864, by which it was made possible to secure small policies through the post-office. In the parliamentary debates Mr. Gladstone made numerous and occasionally very bitter attacks on the Prudential, its managers and methods, going so far as to allege its insolvency. The Prudential, in its own defense, employed eminent actuaries to report on its actual condition, with the result that the charges of the great Chancellor were proven unfounded. Mr. Elizur Wright seems to have taken a keen interest in this controversy, for in his report for 1865 he comments at length upon the measure, giving Mr. Gladstone's plan his hearty endorsement. Himself a strong advocate of government supervision of insurance interests, he readily agreed with Mr. Gladstone, and suggested a corresponding system of life insurance by the government of the United States.†

With the highest respect for the ability of both Mr. Gladstone and Mr. Wright, the earnest and disinterested student of life insurance problems cannot very well rest content with a one-sided presentation of the facts in the case. The Industrial companies had gained the confidence of the public, and the new business of the Prudential during 1863 alone had reached sixty-eight thousand policies. It requires a

* On the Financial Statistics of British Government Life Annuities by Frederick Hendriks, London, 1856.

† Tenth Annual Report of the Insurance Commissioner of Massachusetts, Boston, 1865, part II, pp. 49-51.

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careful reading of the parliamentary debates of the sessions of 1864 and 1865, and some knowledge of the dissertations and fugitive essays of writers of the period on government life insurance in its inception, to bring the proposed measure into clear relief as an uncalled-for interference with private enterprise and with the normal development of a social institution of great magnitude. It is now some thirty-seven years, and the results attained by the two different forms of thrift institutions can be brought in contrast with each other. By January 1, 1902, the Industrial companies of England had some twenty-one million policies in force, in contrast to about fifteen thousand policies in force with the government post-office. Or, in other words, to every one policy in force with the government, some fourteen hundred policies are in force with private companies. It is this fact which speaks and which makes further comment unnecessary.*

The attack on the London Prudential and its business methods, however, had been rather incidental to the general purpose of the government to enter the life insurance business on the largest possible scale. As pointed out by Mr. Gladstone, the field of life insurance for the masses was not occupied by sound institutions, nor yet by sound and unsound institutions, and such was the enormous breadth of the field that apparently the government alone could be expected to do justice to the vast interests involved.† The *Monitor*, in 1864, in commenting on the Gladstone measure, called attention to the grounds for such interference in the interest of the regular life companies by the statement that, "In no single department of business has there been so much jugglery and so much false pretension as in life insurance." Thus confronted by government opposition and competition on the one side and general public distrust in life insurance on the other, the Prudential of London continued to develop its business, and the reports for each succeeding year bear

* On December 31, 1908, the Prudential of London had 17,963,127 Industrial policies in force.

† History of the Prudential Assurance Company, p. 22 et seq.

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evidence of superior administration and an increasing public demand for Industrial insurance.

The publicity given to all of the more important facts connected with the early development of Industrial insurance in England, but in particular to the business of the Prudential, brought the subject more and more to the attention of the general public. With unusual frankness, the London company had from time to time published a statement of its affairs, and the annual reports of the directors contained much interesting information regarding the rapidly extending Industrial business. The progress of the company since 1865 had indeed been phenomenal, and the income by 1869 was more than double the income of 1864. The report for 1869 quite properly concludes with the statement that "The establishment of this branch has been attended with the happiest results to the classes for whom it was especially designed; the great uncertainty which prevailed with regard to the stability of local institutions and the defective averages which they afforded (leading to very disastrous consequences) have now been replaced by a wide-spread and almost unbounded confidence in the institution which has been the means of affording to the poor man the advantages hitherto only attainable by the comparatively well-to-do." But the company was as yet only in the infancy of its wonderful career.

Commenting on the astonishing results attained in England by so simple and yet effective a method of life insurance, the *Exchange and Review* of Philadelphia in 1868 had well said: "The adaptation of life insurance to the convenience of the working classes is an idea whose practical and true development in the United States is as yet in embryo, but without doubt the penny of the poor man is to have its place in life insurance accumulations, as well as the dollar of the capitalist." The times were peculiarly suggestive of ideas and plans for the amelioration of the condition of the poor by associated

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effort. The country was in a very prosperous condition after the close of the war, and labor as a distinct element in our national economy assumed more and more an independent position through the rapid development of trade unionism. The, for the time, enormous immigration had brought over a large number of Englishmen, who were in possession of considerable knowledge of friendly society methods and management. Local lodges and affiliated societies were formed by members loyal to their parent institution and with an abundant field for their rapid development. All over the country so-called co-operative societies for sick relief, support in old age, or a funeral benefit payable at death, were formed, almost without exception by the workingmen themselves, without the necessary skill or knowledge of the laws of mortality and finance. The unhappy experience of so many of the English societies had no influence on the organization of corresponding institutions in this country. Of the so-called fraternal societies, workingmen's insurance associations, etc., organized during the later sixties, distinctly for insurance purposes, practically none remains in existence at the present time. It is true of this class of institutions as Mr. John Fiske, the historian, says of all the achievements of mankind, that "It is only after much weary exertion and many a heart-sickening failure that success is attained," and, in another place, that "You cannot invent an institution as you would invent a plow."* Workingmen's insurance on the basis of voluntary thrift was only in embryo in the later sixties, but it was certain to develop within a few years.

The efforts made during the fifties to place the English friendly societies on a sound foundation had not met with the success anticipated, and by 1870 the problem became once more acute and pressing, so that a special Royal Commission was appointed to inquire into and report upon the

* *The Beginnings of New England*, by John Fiske, Boston, 1898, p. 16.

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subject in all its various aspects. The work of the Commission, which in its make-up was indeed a most able one, extended over a number of years; but reports were made during intervals, and of these the second, published in 1872, contained a considerable amount of very useful information relating to Industrial insurance. Among the witnesses examined by the Commission was Mr. (now Sir) Henry Harben, the then secretary of the Prudential, who, in answer to some three hundred questions, explained in great detail every important feature of the management and experience of his company. Already, in 1871, in a paper read before the Institute of Actuaries and discussed by eminent members of that body, Mr. Harben had given publicity to the elementary principles and practices of this new system of life insurance for the masses, so that, with the additional evidence presented before the Royal Commission, it was made possible for others interested in the subject to form a working idea of the problems involved in establishing a similar company in the United States. That such a purpose was being seriously considered is made evident by a statement of Mr. Harben's before the Royal Commission, that "In America they want to adopt the Industrial system of assurance, and I, myself, have framed an Act of Congress, with all the necessary schedules for them for the purpose."* The insurance periodicals of the United States from 1868 to 1872 contain occasional references to various efforts to establish Industrial insurance in this country, but not one of the attempts was carried into practical execution. The time, however, had come, and the opportunity was ripe for an experiment in this direction, but none of the large companies seemed inclined to take an interest in the subject. They were entering upon a period of disastrous and far-reaching financial disturbances, which paralyzed all efforts at material improvement and, for the time being at least, discouraged new ventures in

* Third Report of the Royal Commission on Friendly Societies, London, 1873, p. 83 (A. 26,125).

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making life insurance more widely popular among the industrial population.

For their earnest efforts to provide by insurance for the uncertainties of the future, the workingmen of England and the United States are deserving of unstinted praise. While many societies were formed by persons seeking their own interests and abusing the confidence of their fellow laborers, far more numerous are the instances where such organizations were established with the very best of motives, by men unselfishly seeking to advance the interests of their class. Nor must it be overlooked, as pointed out by Hardwick in his "*History of Friendly Societies*,"* that "The now insolvent societies had been formed upon the models submitted to them by the very parties who were supposed at the time to be the very best to advise in such matters. But these facts are too often ignored or forgotten by a certain class of individuals, who idly denounce the efforts of the working class, instead of in a kindly spirit pointing out the most radical method for their eradication." The difficulty in fraternal insurance is fundamental. It is impossible for a purely social and semi-philanthropic institution like a fraternal society to enter into a distinct business arrangement, make promises of a sum certain depending upon life contingencies, and retain at the same time its earlier, perhaps more primitive, but certainly more useful, social character. The peculiar function which it fills in the social economy of the people cannot be replaced by any other institution yet developed, but the life insurance function is so successfully carried into effect by entirely responsible companies that even though there be a slight difference in the expense rate, under the very best conditions the possible gain is not compensated for by the risk of almost certain loss.

During the early seventies, however, no opportunity existed for workingmen to avail themselves of the advantages

* *The History, Present Position and Social Importance of Friendly Societies*, by Charles Hardwick, London, 1850.

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of sound life insurance, except under conditions which were practically prohibitive. Not only were no efforts made by Ordinary companies to solicit risks on the lives of wage-earners, mechanics, laborers, etc., *but the necessary habit of periodical saving had not been formed.* Reliance was, therefore, placed upon institutions without intrinsic merit and which were almost certain to fail within less than another generation. Their number and rapid development, however, gave evidence of a growing interest in life insurance among the masses and a gradual recognition of the superior advantages of commercial institutions conducting the business in conformity to correct principles of insurance science. The history of this period records numerous instances of efforts on the part of trades unions to effect arrangements with large companies, but the matter was looked upon in too indifferent a light by the managers to assume a practical character. Of what, for the time being, was called the "Bund" system, mostly originating with German benefit societies, only traces now are found in a few existing policies, the liability for which was assumed by responsible companies. It was pointed out by the *Exchange and Review* in 1869, that "An end being honestly sought, impracticable ways to it, adopted in mistake, will give place to the practicable. With a way open these combinations will gravitate towards the proper life companies, and unions for effecting life insurance with the companies and under special arrangements may be part of the problem of the future, and which may make individual insurance certain and more available." This prediction, however, was not verified by subsequent experience.

Life insurance and savings banks in the United States were in 1873 in a most precarious condition, complicated by the panic and resulting business depression and the enormous depreciation in values. Every financial institution was tested to its foundations, and while a large number of the more recently organized companies went under, the

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gigantic structure of sound life insurance remained unshaken, a monument to the wisdom and prudent forethought of the founders, who, with prophetic insight, had guarded against the shock which sooner or later was certain to come. The wonderful prosperity of the country after the close of the civil war had not been without effect on life insurance transactions, and what for the time must have seemed remarkable results had been attained. A large number of new companies had been organized, and by January 1, 1871, some seventy-one companies reported to the New York Insurance Department. Following the failure of the Great Western in 1870, a comparatively unimportant institution, one small company after another found itself in difficulties, terminating either in a receivership or the reinsurance of the business in some other, equally weak, institution. Failures in the banking world added largely to the increasing public distress, and what had been in a fair way to become a widely diffused thrift function was by 1875 rather the exception than the rule. Both savings and insurance by this time had practically come to a standstill, and the companies or institutions, instead of making progress, were in the majority of instances unable even to hold their own.

The American student of the workingmen's insurance problems of this period found himself confronted by a truly astonishing mass of evidence and data pertaining to the theory and practice of friendly societies and related associations, with a few fragmentary essays and reports on commercial insurance undertakings, such as the Prudential Assurance Company of London. The published evidence, and in a still larger measure public opinion, strongly favored the mutual assurance societies for workingmen, however inherently defective; primarily, no doubt, because in their professed aims they attempted to deal with a large number of wants and needs for which private and public charity would otherwise have to provide. Insurance against sickness and against incapacity in old

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age had so much of intrinsic merit to commend it, that, naturally, in any new undertaking these facts would have to be seriously considered, in that a policy provision to this effect would form a very strong attraction and contribute to gain popular support. Nor was the statistical evidence wanting to place such an institution on a reasonably secure basis. The earlier calculations of the amount of sickness among wage-earners, as reported by the Select Committee of the House of Commons in 1825, had been followed by the investigation and reports of the Southwell Society, and later by the works of Mr. John Finlaison. The Southwell Society tables were published in detail by the Rev. John Thomas Becher in 1829, and in 1830 Mr. Henry Gregson published his suggestions for establishing friendly societies and savings banks. The well-known treatise on friendly societies by Mr. Charles Ansell, published under the auspices of the Society for the Diffusion of Useful Knowledge, appeared in 1835, but already, in 1833, Mr. John Finlaison had given publicity to a series of tables of monthly contributions which had the endorsement of Mr. John Tidd Pratt, later the Chief Registrar of Friendly Societies. It was not until 1845, however, that Mr. F. G. P. Neison read his celebrated "Contributions to Vital Statistics" before the London Statistical Society, which was subsequently reprinted, in a more elaborate form and in different editions, as a standard work of reference on friendly society theory and practice. In 1850, under the direction of Mr. Henry Ratcliffe, a very important report was published on "Observation of the Rate of Mortality and Sickness Existing among Friendly Societies," calculated from the experience of the Manchester Unity of the Independent Order of Odd Fellows. This report was followed in 1852 by an appendix containing additional data and observations. The work of Mr. Ratcliffe, next to the earlier work of Mr. Neison, forms one of the foundation-stones of modern workingmen's insurance on the basis of

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voluntary thrift. In 1851 Mr. James Henry James published a "Guide to the Formation and Management of Friendly Societies," containing among other tables several in which the contributions from age ten upwards were calculated on a weekly basis. In 1852 a "Return" was published by Parliament, under the supervision of Mr. John Tidd Pratt, containing a mass of data regarding the sickness experience of the registered friendly societies during the five years ending with 1850. An elaborate analysis of the "Return" was published in 1853, prepared by Mr. John Glenn Finlaison, the well-known actuary of the National Debt Office. A further report was published the year following by the same authority, supplementary to the earlier observations. In 1859, Mr. Charles Hardwick, the Past Grand Master of the Independent Order of Odd Fellows, published an admirable treatise on the history of friendly societies, including a very suggestive chapter on the practical development of the science of vital statistics. During the same year Mr. Arthur Scratchley issued, as the third division of his comprehensive work on life insurance, a treatise on friendly societies, containing "An Exposition of the True Law of Sickness," with remarks on the extension of Industrial life insurance. Two years later Mr. Ratcliffe issued a supplementary paper on the rate of mortality and sickness amongst friendly societies, and this was followed in 1867 by a history of the Odd Fellows, Manchester Unity, by Mr. James Spry, and in 1871 by a pamphlet on "The Manchester Unity," by Mr. F. G. P. Neison.

Out of this mass of reports, data and observations, it appeared entirely feasible and practicable to reconstruct on a business basis a plan of life insurance for the masses combining the three elements of friendly society theory, namely, the assurance of a sum certain payable at death, the payment of a sum certain during sickness, and the payment of a sum certain during incapacity or old age. Subsequent experience proved that under present conditions the operations

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of an Industrial company must of necessity be limited to the assurance of a sum certain payable at death, while the assurance of a stipulated sum during sickness can only with safety be transacted, and then only in a limited way, by fraternal organizations having a perfect knowledge of and complete supervision over the individual members. During the early seventies, however, this result could not be foreseen, and in the light of the then available information it seemed better to follow the general principles of friendly society management and practice than to limit the operations of workingmen's insurance to the more simple, but certainly more effective, provision of a sum certain payable at death.

Our economic history for the decade 1870-1879 is one of panic, disaster and distress. From 1862 the currency had been on a paper basis, and, all assurances to the contrary notwithstanding, specie payments had not been resumed. The value of a dollar might have been anywhere from forty cents to ninety-nine, and it was not until 1875 that the resumption act was passed, to take effect on January 1, 1879. Hardly had the act of 1875 become a law when efforts were made to have the same repealed, and but for the strenuous efforts of Senator Sherman this might readily have been the case. In his own words in the Senate, on March 6, 1876, "It is the turning point in our financial history, which will seriously affect the life of individuals and the fate of parties, but, more than all, the honor and good faith of our country." * With the panic of 1873 the wheels of industry had come to a standstill and unemployment had become general. The mass of the people were entirely unprepared for a long period of enforced idleness, and tens of thousands from comparative comfort drifted rapidly into debt, and from debt into poverty and pauperism. The relations of employer and employee became more and more strained, ending in the great strikes and labor disturbances of 1877. The condition of the people

* *Speeches and Reports on Finance and Taxation*, by John Sherman, New York, 1879, p. 493.

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was indeed "calculated to awaken the deepest sympathy in the minds of those who had the well-being of the state at heart."

With increasing poverty, the health of the people had seriously declined during the early seventies, and while ordinarily a very healthful country, the United States at this period suffered from widely-extending epidemics, first of small-pox, then of cholera, and finally of yellow fever. The large foreign immigration had materially increased the population of cities without providing the means for the corresponding sanitary requirements, and the average city death rate by 1872 had reached the extraordinary figure of 29.9 per 1,000. The mortality of children under fifteen had increased to 43.7 per 1,000 during 1871-1875, which contrasts with 28.6 as the prevailing rate during 1896-1900. In Newark, N. J., according to a special investigation* made by Dr. Holden, the general death rate increased from 20.0 per 1,000 during 1869 to 33.0 during 1872. In many of the large cities special inquiries were made into the sanitary state of the people, and the medical investigations disclosed an immense amount of preventable sickness and resulting premature mortality. In Boston the demand on the medical charities had more than doubled during the period 1869-1874, and a similar condition existed in most of the other large centers of population.

In New Jersey an investigation was made by the Labor Bureau in 1879, when the health conditions were somewhat improved, but even then the average number of days lost by wage-earners on account of sickness was returned as 14.5, which is more than twice the normal, as determined by the experience of the friendly societies. The natural and immediate result of this unfortunate condition affecting the large majority of our population was a demand for organizations corresponding to the English friendly societies, covering broadly the field of insurance protection against sickness,

* *Mortality and Sanitary Record of Newark, N. J.*, by Edgar Holden, M. D., Ph. D., Newark, N. J., 1880.

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incapacity during old age, and the payment of a definite, if small, amount at death.

Provident habits were, however, only imperfectly developed among the large mass of our wage-earners during the early seventies. As is usual during long-continued periods of adversity and national distress, moral deterioration followed, and the evidence of this we find in the then prevailing amount of intemperance. By the official statistics of the city of Newark, the ratio of arrests for drunkenness was one to every forty-five of the population during 1873-1875 against one to every one hundred and forty-five during 1899-1901. In other words, drunkenness was more than three times as common thirty years ago as it is to-day. Thus poverty and sickness, combined with intemperance, increased the prevailing amount of pauperism and made dependence upon public and private charities in sickness and distress rather the rule than the exception.

Pauperism had, in fact, increased to an alarming extent. Evidence as to the thrift habits of the people was collected by official inquiries in Massachusetts and New Jersey, and the conclusions were quite contrary to the current theories as to the saving habits of the population. It was brought out that the vast sums on deposit with savings banks, instead of being largely the accumulations of labor, were, quite to the contrary, in considerable proportions the investments of the wealthy. The Labor Commissioner of New Jersey in his report for 1878 had pointed out that "Within the last five or six years it is observed that the well-to-do class have been attracted to these depositories with their unproductive possessions, until they have ceased to reflect in the aggregate the savings of the classes they were originally intended to benefit."* Provident habits, the reports show, were the exception, and as to life insurance, the collected workingmen's budgets, or inquiries into family expend-

* First Annual Report of the Bureau of Statistics of Labor and Industries of New Jersey, Trenton, 1878, p. 196.

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itures, give no evidence that payments were made to any extent on this account by the wage-earning portion of the population.

The economic condition of the masses was indeed deplorable, and, even by rigid economy, only the fortunate few could provide for more than the necessities of life. The average income of a wage-earner's family in New Jersey was officially returned as \$513, against average annual expenditures of \$521. The characteristic abhorrence of a pauper burial gradually gave way to the necessities of the situation. The usual sources of relief in case of misfortune, sickness or death were no longer available. However inclined and willing to assist others, each family had cares and difficulties enough of its own. The anxiety of the poor in this respect was truthfully reflected in a statement by the Labor Commissioner of Massachusetts, in his comments on savings banks in 1872: "There is a class of deposits in our large cities that shows the poverty of working women more than argument could do. This class consists of poor women who save and starve for the sake of having enough to bury them." *

The abhorrence of a pauper burial is so universal that it may be said to form the foundation of life insurance as represented in the more humble sphere of burial clubs and friendly societies. Yet so universal was the distress of this period, and so entirely without means were the poor to provide against this contingency, that the pauper burial rate of the principal cities gradually increased to a maximum point during the period of depression. The unhappy state of the people can perhaps be best illustrated by the contrast of the pauper burial rate during the seventies with the corresponding rate prevailing at the present time. In New York the rate had gradually increased to thirty-three per 10,000 of population, while during the five years 1898-1902

* Third Annual Report of the Bureau of Statistics of Labor, Boston, 1872. p. 334.

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it has been sixteen. The Newark rate was sixteen, against ten during 1898-1902. There are no earlier official figures for Boston than for 1880-1884, but the rate even then was thirteen per 10,000, against less than seven during 1898-1905. The reduction during the intervening years not only reflects the decrease in pauperism and public dependency, but even more so the enormous improvement in the social condition of labor and the increased economic security against the uncertainties of the future.

If life insurance was comparatively unknown among the poor, considerable progress had been made among the more prosperous element since the close of the war. The failure of a large number of companies had, no doubt, acted as a serious check upon the immediate progress and created wide-spread distrust and apprehensions of further difficulties. The mass of the people, however, viewed the matter with apathy and indifference. The general practice of the companies was to solicit risks for amounts of \$1,000 and over, and rather among men in professional and mercantile employments than among wage-earners. The system thus assumed the character of a class institution, apparently designed for the sole benefit of the well-to-do. The extension of life insurance principles and practice to the wage-earning millions was, however, gradually being recognized as a coming factor in the social economy of the nation, and already, in 1872, the Labor Commissioner of Massachusetts, in his report for that year, had deplored the want of prudent habits and the limited use made by the poor of the savings banks, concluding with the advice that "These considerations suggest the important subject of life insurance, as a means of benefiting the workman's family in case of his death. It is not our function to enter at large upon such details; and we content ourselves with merely saying that small investments in life policies will result in great and material aid to a family after the death of its natural protector and support. This

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subject is too important to be overlooked by persons of small means and of small savings.”*

It has been my purpose to show that by 1875 the social and economic state of the industrial population of the United States was such as to imperatively call for a new form of thrift, better adapted to their special needs than the existing methods represented by savings banks and insecure mutual aid associations. With a knowledge of the facts and conditions which have been set forth with the necessary brevity, a feasible project for a modified form of Industrial insurance, adapted to the needs of American wage-earners, gradually assumed definite proportions. The year 1875 was not, perhaps, the most opportune in which to start a new insurance enterprise, when half of the existing companies of a few years before had gone out of business and some of those remaining were in anything but an enviable position. An opportunity, however, presented itself of securing the charter of the “Widows’ and Orphans’ Benefit Society,” organized in the city of Newark, N. J., in 1873, “to assist sick, needy, or disabled members, and to provide for the wants of the widows and families after death.” The charter right covered all the essentials of friendly society practice under corporate management, and when the reorganization of the business was effected, in 1875, the new society adopted the title “The Prudential Friendly Society,” which was changed in 1877 to “The Prudential Insurance Company of America.” The aims of the Society as set forth in the first prospectus were to enable people of small means to provide:

- 1st, for relief in sickness or accidents;
- 2d, for a pension in old age;
- 3d, for an adult burial fund;
- 4th, for an infant burial fund.

Subsequent experience proved that it would be impossible

* Third Annual Report of the Bureau of Statistics of Labor, Boston, 1872, p. 525.

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under existing conditions to provide in this manner for relief in sickness or old age, and, accordingly, after a few years the business was limited to the insurance of a *sum certain* payable at death.

The space is not available for an extended sketch of the early history of the Society and its struggles against overwhelming odds making for failure and the miscarriage of the aims of the founders. The writer was fortunate in associating with himself men of exceptional ability and high standing in the community, and but for their hearty co-operation and their faith in and unswerving loyalty to the cause of Industrial insurance, The Prudential would not have survived the many difficulties experienced during the earlier years. To Mr. Noah F. Blanchard, who in 1879 became the president of the Company, to Dr. Leslie D. Ward, since 1884 the vice president, and to Mr. Edgar B. Ward, counsel, and since 1893 the second vice president, the writer owes it that his aims and ideals of the early seventies were carried into successful execution. Those who came into the Company as directors and executive officers not only risked their money, but what was far more to them, their reputation, in a venture which seemed almost certain to fail at a time when the most solid business houses of the country faced ruin and disaster. The work of these men and their aid to the writer to carry into practical effect his ideas and ideals of many years deserve a more extended explanation than is possible on this occasion. The present account is merely a statement of the general social and economic principles and conditions which underlie the business of Industrial insurance. Its rigid conformity and successful adaptation to these principles and conditions have made possible the great success to which it has now attained.

In his essay on Lombard Street, Mr. Walter Bagehot remarks that "It is often difficult to say why particular trades settle in particular places,"* and it need not be explained now

* Bagehot's Works, vol. V, p. 10.

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why Newark was selected by the writer as the birthplace of Industrial insurance in America. Nor would it serve our present purpose to go into the details surrounding the organization of the Prudential Friendly Society and its first few years of effort to establish the new system of life insurance for the masses in a State where previously it had been entirely unknown. It is enough to point out that the difficulties were considerable, and that but for the hearty co-operation and abiding confidence of a small group of men the experiment would have ended in failure. Newark, in 1875, had a population of about 120,000, and was then, as now, one of the leading manufacturing centers of the country. In many respects the city was an ideal community in which to introduce Industrial insurance, in that the large majority of the population were wage-earners, engaged in a multitude of trades and industries, offering a sufficiently broad basis for the introduction of what was then a novel form of insurance. Life insurance in New Jersey had made but small progress during the early seventies, and the failure of the Newark Savings Institution, and later the disclosure of fraud and mismanagement in connection with the New Jersey Mutual Life * had almost put a premium on improvidence. Capital had been withdrawn from investment and it was only with great difficulty that something less than six thousand dollars were secured by the writer and his associates as a fund with which to begin active business operations.

The problems confronting the Society at the outset were indeed formidable in the extreme. Success was possible, but not at all probable, and the ultimate failure of the undertaking seemed almost a certainty. While the first application was not received by the Society until the 10th of November, 1875, for several years previous careful consideration had been given to every important detail of office theory and practice. The actuarial work in con-

* Report by the Secretary of State of New Jersey on the New Jersey Mutual Life Insurance Company of Newark, Trenton, N. J., 1877.

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nection with the construction of the tables of premiums had been entrusted to Mr. J. E. Clark, a competent actuary and professor of mathematics at Yale College, who, with much skill and more than ordinary knowledge of friendly societies' experience, prepared a set of tables which remained in use for a number of years, until the sickness branch was discontinued. There were then no trustworthy American life tables applicable to the transaction of an Industrial business, and reliance had necessarily to be placed on English tables and data until the Company's own experience made a readjustment of rates and amounts possible. Every step, however, was taken with extreme caution, and, when in course of time the subsequently tabulated experience proved the inexpediency of a sickness insurance business the same was at once discontinued.

Of the many other problems confronting the Society, only the most important can be referred to. The need of a thorough system of accounts to effectively check the multitude of transactions involved in Industrial insurance was early recognized by the managers; but Mr. Harben had already called attention to this matter in his paper read in 1871 and in his evidence before the Royal Commission of 1872.* This was necessary, in his own words, "So that the absolute experience of the workings of Industrial business might be ascertained, and if proved that it would be impracticable to carry it out with any degree of profit that it might be discontinued before any great harm was done." The audit, actuarial and statistical departments of the Company have grown out of this early recognition of the necessity for an absolute check on every important transaction and of the idea that a life insurance company's experience includes the entire business operations and not merely the profit and loss account. It is quite safe to say now that no other business enterprise is so thoroughly under

* Third Report of the Royal Commission on Friendly Societies, London, 1873.

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supervision and control as that of a large Industrial insurance company.

Another important problem confronting the Society was the difficulty of organizing an effective and loyal agency force. Two ways were open to this end—the first and more attractive of which was to bring experienced men from abroad, trained and developed in the service of English Industrial companies; while the other was gradually to develop a staff from the very element of the population which it was proposed to reach. The latter course was decided upon as the better, although the instruction and training of entirely raw material required much time and brought about a somewhat slower development at the start. The Company has had no reason to regret this decision, for by consistently adhering to this policy it has secured as loyal a force of men as ever served a commercial institution. Many of these men have now been with us for more than twenty years and are the honored leaders of our Old Guard, who, during the most critical period of Prudential history, have stood loyally by their officers and faithfully served the cause with which they had cast their lot.

While every possible effort had been made to place the Society on a solid foundation, the problem of attracting a large membership was complicated by the unsatisfactory economic condition of the people. The large amount of prevailing involuntary idleness, the general distrust in financial institutions, the novelty of the idea itself, and the lack of a trained agency force, combined to limit the operations of the Society during the first few years to a comparatively narrow field. Viewed from the standpoint of mere numbers, however, the results obtained were quite remarkable. During the first complete year of business operations the number of new policies secured was 7,904, against about 2,000 new policies secured during the year by all of the Ordinary companies transacting business in New Jersey. The year

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following, that is, during 1877, there was a slight increase, and the number of new proposals received was 10,521. This number was doubled during 1878, and, after another year, when the business had been extended to New York and Pennsylvania, the success of Industrial insurance as a distinct business enterprise may be considered as having been established. Other companies now entered the field, active competition led to more determined efforts to extend the business operations to a larger field, and the history of Industrial insurance in America since 1879 is no longer exclusively the history of The Prudential Insurance Company of America.*

During the twenty-eight years that have passed, Industrial insurance in the United States has made continuous and remarkable progress, and the number of policies in force is now almost fourteen millions, with the business extended to nearly every State of the Union.† The aims of the founders have been realized, and what in 1875 was looked upon as a novelty and with distrust is now regarded by millions as a fixed item of family expenditure. In conformity with the axiom that "only certain steps in advance are possible at any given time," the business has been developed by degrees until the larger portion of the wage-earning population of the cities in the industrial States are now insured. The method of insurance education has been successful, and out of the simple conception of the Industrial policy and the implied guarantee of a burial fund has grown the imposing, continent-wide structure of Industrial-Ordinary life insurance. Every Industrial agent is to-day a solicitor for Ordinary policies of \$500 and upwards, with premiums payable quarterly, semi-annually or annually. A vast amount of insurance protection for the benefit of surviving members of the family, for the maintenance of the home,

* For a comprehensive account of the origin and progress of the Company see "The History of The Prudential Insurance Company of America," by Frederick L. Hoffman, Newark, N. J., 1900.

† On December 31, 1908, there were 19,687,675 Industrial policies in force in the United States, representing \$2,668,919,696 of Industrial insurance.

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for the education of children, and for a variety of other purposes, is thus provided, which but for the preliminary insurance education through the Industrial policy would have been impossible. The future is full of promise for the ultimate development of Industrial insurance as a universal thrift function in the life of the people, and the record of the American companies during the past twenty-eight years is evidence that needed improvements have been introduced whenever the accumulated experience warranted a further step in advance. Just as it is a recognized law of evolution as laid down by Mr. Herbert Spencer that "No social institution commences its existence in a form like that which it eventually assumes," and that "In most cases the unlikeness is so great that kinship between the first and the last appears incredible," so Industrial insurance in years to come is certain to develop into an agency of still greater usefulness and assume more and more the character of a vast social institution through which most of the economic uncertainties of industrial life will be effectively provided for. The broad foundation has been laid, millions have been educated in sound life insurance principles and become habituated to systematic and periodical savings. The foundations of this structure have been laid with care, and the business is conducted principally by large and thoroughly responsible companies. The nature of the business demands constant vigilance and careful supervision of all its details, and the interests involved are so great that a retrograde step after these twenty-eight years seems to be utterly inconceivable, while a hopeful outlook for the future appears to be entirely consistent with the remarkable history of the past.*

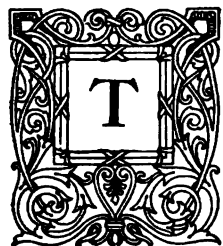
* The rapid progress of Industrial insurance in the United States is clearly indicated by the table in Appendix E, which presents the Industrial insurance in force with all Industrial companies, and the Industrial insurance in force with The Prudential Insurance Company, which was the pioneer company to transact this form of insurance in the United States.

CHAPTER II

THE
FIRST QUARTER
CENTURY OF INDUSTRIAL
INSURANCE
IN THE
UNITED STATES

PUBLISHED IN
THE INSURANCE RECORD
1902

THE FIRST QUARTER CENTURY OF INDUSTRIAL INSURANCE IN THE UNITED STATES



THE first American Industrial policy was issued by The Prudential in Newark, N. J., on the tenth of November, 1875. That day may, therefore, properly be considered as the date of the commencement of actual business operations, although for several years preceding, careful consideration had been given to the perfection of the necessary details of business management, and the preparation of tables of premium rates had for months been in the hands of a skilled mathematician. Careful attention was paid to the results of life insurance methods in England, and, after mature consideration, the essential principles of the Prudential Assurance Company of London were adopted, but modified to suit American conditions. The London Prudential had commenced the issue of Industrial policies in 1854, and by January 1, 1875, had almost 2,000,000 policies in force—a business success at that time without a parallel in the history of insurance or finance.

The London company had succeeded where the British government had signally failed. Under the personal direction of Mr. Gladstone a system of post-office insurance for working people had been inaugurated during the early part of 1865, with every prospect that in a few years the business operations would equal, if not exceed, the results attained by post-office savings banks. The anticipations were not realized. State trading in this direction proved a failure. By 1875, when the subject of Industrial insurance was first seriously considered on this side of the Atlantic, and after ten years of operations, a total of only 4,478 policies had been

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issued by the Post-office Department, while the London Prudential during 1874 issued more than 16,000 Industrial policies a week.

The progress and results of Industrial insurance, from the commencement of business operations in 1875 to the close of the last year of the nineteenth century, mark a new era in the development of thrift agencies useful to millions of our industrial population. Organized in 1875 by a charter dated February 18, The Prudential was the first organization of its kind to transact Industrial insurance in the United States. The earlier efforts to provide life insurance for the masses had been failures and in many instances delusions and snares. Public confidence in "workingmen's insurance" did not exist previous to the organization of The Prudential. Ordinary insurance companies had made considerable progress, but not in the direction in which Industrial insurance has been so widely extended. The virtues of prudent forethought and self-denial were publicly decried by those who, in the name of health, co-operative, fraternal or workingmen's insurance, had been defrauded not only of the savings of years but of an opportunity to provide with certainty for the immediate future of dependent members of the family. Ordinary life insurance itself was under a cloud and institutions for savings were mistrusted, as an outcome of the results of the financial panic of 1873. Under such circumstances the organization of a new life insurance project, combining with established principles untried methods of practice, was not a very promising undertaking.

Life insurance in the United States in 1875 was in a deplorable state. Beginning with the failure of the Farmers and Mechanics, in 1871, there had been a series of disastrous liquidations, which culminated in the failure of the New Jersey Mutual, in 1877. The daily press was filled with charges of fraud and dishonesty against life insurance

First Quarter Century of Industrial Insurance

managers. The most trustworthy institutions were assailed, together with those least worthy of public confidence. The number of companies transacting business in the State of New York decreased from seventy-one in 1870 to thirty-one in 1879. The number of Ordinary policies in force decreased from 817,000 in 1873, the year of the panic, to 595,000 in 1879.

Institutions for savings were in a similar condition of popular disfavor and distrust. Failures had been frequent, and with disastrous effects on the development of habits of frugality and self-denial. In New Jersey one of the most respected institutions, in business since 1847, became involved as the result of the panic of 1873, and a receiver was appointed in 1878. This bank had at one time 25,000 depositors and carried deposits to the extent of over eight millions, or about one-third of all the funds deposited with savings banks in the State. The loss of public confidence is shown in the slow progress made by savings banks during the years 1878-1880. Such conditions naturally affected materially the growth of Industrial insurance during the early years when the operations of The Prudential were confined to New Jersey.

By January 1, 1880, the Company had extended its operations to adjoining States and about 44,000 Industrial policies were in force. This result appears small in the light of subsequent experience, but when we consider the disturbed state of the public mind, the general distrust of life insurance and other methods of thrift, the result is a gratifying evidence of the early recognition of the value of Industrial insurance as an effective method of family protection. Let us contrast the result with the status of Ordinary insurance in New Jersey at the beginning of 1880. According to the report of the insurance commissioner there were twenty-six companies transacting Ordinary business in the State. These companies reported only 17,318 policies

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in force, or less than half the number of Industrial policies in force with The Prudential after about four years of active corporate existence. Yet some of the Ordinary companies had transacted business for almost forty years, and the largest could show only about 3,500 policies in force in New Jersey. It is evident that the progress of the Ordinary companies could not be looked upon as of much social or economic value. What was needed was energetic missionary work or education of the public in the very elementary principles of life insurance, not only to make clear its value as an investment for surplus earnings, but also to point out the plain duty of providing for the needs of dependent survivors according to the means of the insured.

There was need of insurance protection in the later seventies, if mortality data of that period can be relied upon as evidence of the extent of misery and want caused by prevailing epidemics of infectious diseases, by a high death rate from consumption and an inordinate mortality of children. For ten of the principal cities of this country the combined death rate was 26 per 1,000 during the period 1870-1874. In Newark the rate was even higher, having been 29.6 per 1,000 during the same five years. The deaths of children under five years of age formed forty-eight per cent. of the total mortality in the ten cities and fifty per cent. in Newark. There is evidence in these statistics that what was needed at that time was not so much life insurance for the individual as life insurance for the family, including a provision for a sum certain payable in the event of the death of the father, the mother, or child. The unfortunate economic conditions prevailing during the early seventies increased the misery of the poor by the necessity, in the absence of other effective agencies, of public aid or private charity in the burial of the dead. Pauper burials, although not an accurate measure of the distress of the period, reached an average rate of 20 per 10,000 of population. During 1881-1885 the rate for

First Quarter Century of Industrial Insurance

eighteen cities was 18.5, against an average of 12.9 during the five years 1897-1901.

There is now no longer need on the part of even the very poor to be "thrown in with the city's dead." Year after year the public records show that the taxpayer is relieved more and more of the burden of providing free burial and medical attendance, as the number of people who are compelled to rely on these charities are gradually placing themselves above the need of public or private assistance by becoming Industrial policyholders.

Times have changed for the better during the past quarter century, but in no direction has there been greater improvement than in the decreasing rate of mortality, especially of young children under the age of five. In Newark, where formerly one-half the mortality was of children under five years of age, the proportion now is about one-third. The general death rate of Newark has declined from 30 per 1,000 during 1870-1874 to 19 during 1896-1900.* Better housing and better food, better wages and shorter hours of labor, combined with an increasing intelligence, are the causes responsible for the improvement which has taken place, but when we pause and think how enormously the degree of economic security has been increased during this period we cannot but conclude that in the social progress of the nation Industrial insurance has played an important though, in a measure, an almost unrecognized part.

In 1879 several well established life insurance companies which had thus far transacted only Ordinary insurance commenced the issue of Industrial policies also. That competition is the life of trade was proved in this instance with exceptional force, and within another decade Industrial insurance had assumed a position of national importance. By the first of January, 1891, there were 3,875,102 Industrial policies in force with nine companies, and the efforts of

* During the period 1901-1908 the average annual death rate of Newark was only 18.6 per 1,000 of population.

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another decade added more millions, increasing the total to 11,219,296 in force on the first of January, 1901.* The student of social progress will search in vain for more conclusive evidence of real social progress than is found in the records of Industrial companies. He will not be able to decry the masses as lacking foresight, prudence and the spirit of self-denial in the face of proof that, by small weekly savings, \$1,466,266,088 of Industrial life insurance has been provided for the protection of dependent survivors. The business has reached a position where as a thrift agency, and from the standpoint of the greatest good to the greatest number, it transcends in financial importance all other forms of savings and insurance combined.

Such results would have been impossible but for the intrinsic merits of this form of life insurance. Industrial insurance is a development of earlier forms of insurance efforts; it is the result of ages of experiment to adapt the insurance idea to the wants and needs of the masses. It combines the highest degree of absolute security with the necessary degree of convenience, and is almost perfectly adjusted to the conditions of life, the habits and the circumstances of the general population. A workingman earning small weekly wages has not, as a rule, more than a week's earnings ahead of him. Unless the insurance premiums are paid at, or very near to, the time the wages are received, and paid without any delay and trouble, to a collector calling at the house of the insured, there may be the same desire for insurance protection, but the intention will not as a rule be carried out. For this reason the premiums are made payable weekly and they are collected from the houses of the insured.

For a similar reason the system is made applicable to every member of the family, although in practice most companies limit the ages of admission from one to seventy. Industrial insurance provides primarily for the expenses of burial;

* On the first of January, 1909, there were 19,687,675 Industrial policies in force in the United States representing \$2,668,919,696 of Industrial insurance.

First Quarter Century of Industrial Insurance

therefore, since death is likely to happen to any member of the family and as the burden of funeral expenses would fall with nearly equal weight upon all the survivors, a small policy of insurance on the life of every member is evidently, for this object, a better provision than a large sum placed upon a single life. In a condition of economic insecurity where, as has been said, rarely more than a week's wages is at the disposal of a wage-earner, such a system of family protection has evident merits over any other form which has thus far been devised. The view is held by some, who have not taken the trouble to inquire, that Industrial insurance is primarily for the insurance of children. As a matter of fact, the distribution of risks among Industrially insured persons by age and sex is practically the same as that of the general population as determined by the census.

As has been pointed out, the Industrial collector calls at the houses of the insured week after week for the premiums falling due. To any one familiar with educational processes it must be clear that such a constant reminder of life insurance as a duty and of the necessity of foresight and self-denial must needs have a considerable effect in other directions. As it has properly been said, one cannot develop thrift habits in one important direction without developing similar habits in other directions. The premium receipt book is the account current between the policyholder and the company. By the most simple arithmetical process it is made evident at any time how much has been paid out and how much will be received in return. The publications issued by the Industrial companies contain all the necessary information as to Intermediate and Ordinary insurance. The agents of the companies are not only instructed, but they are required, to canvass for Ordinary insurance as well as for Industrial. By degrees the general public has been educated to the advantages of Ordinary insurance. From the payment of weekly premiums, once the habit has become a part of the

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household economy, it is but a step to the payment of a quarterly premium on an Ordinary policy. The development of the Ordinary branch of Industrial companies is a chapter of life insurance history of which the companies have particular reason to be proud.

As early as 1886 it had become evident to The Prudential that the educational process of Industrial insurance would impose upon the companies the necessity of issuing Ordinary policies. Even as far back as 1880, policies for a round sum of \$500 had been issued on the weekly plan, but this step proved inadequate, and therefore, on January 19, 1886, the first Ordinary policy was issued by The Prudential, which had, until that date, confined its efforts entirely to the transaction of Industrial business.

The field was new, and once more The Prudential undertook pioneer work. A small amount of Ordinary business had been written by other Industrial companies, but not among the industrial population. In fact, even the large Ordinary companies not transacting Industrial business had had no success in reaching the large element of the population engaged in manufacturing industries or other industrial employments. The efforts of The Prudential proved successful. By January 1, 1891, the principal Industrial companies had 13,704 Ordinary policies in force, and by January 1, 1901, this number had increased to 340,000, or more than the total number of policies in force in the United States in 1866. Most of this business has been written among the industrial population, although the operations have of recent years been extended by means of special Ordinary agencies to a class of people in a position to pay for larger policies. The Prudential issues at present all forms of Ordinary contracts, from whole life policies to endowments and annuities. The Company now issues policies from \$15 to \$100,000. The educational process has been completed, the object of Industrial insurance has been attained; life

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insurance principles have in fact been extended to the masses, and the business is now truly national in its scope, extent and importance. Even the most unfriendly critic will admit that the results attained are a credit to the millions of men and women who by sacrifice and forethought have thus effectively, and to the extent of their ability, made provision for an unknown morrow and the needs of others at an hour when, of all human afflictions, needless, sordid poverty is the greatest.

The present position of Industrial insurance in the United States is very clearly set forth in a comparison of the number of policyholders with the number of savings banks depositors, the policyholders in Ordinary insurance companies and the membership in fraternal organizations. As has already been stated, on the first of January, 1901, Industrial companies had 11,219,296 policyholders. According to the last report of the Comptroller of the Currency, on June 30, 1900, there were 6,107,083 savings banks depositors in this country, or almost two Industrial policyholders to every one depositor. This comparison is not unfair, even though the Industrial companies have a considerable number of policies on the lives of minors. A large number of savings banks deposits, in regular banks as well as in school savings and penny provident funds, are in the names of children, and, as such, are properly included in the total number of savings banks depositors. Nor must the fact be overlooked that institutions for savings have been in active operation since 1816, when the Boston Provident Institution was established, and in 1875, when The Prudential commenced operations, there were 771 savings banks, with 2,359,000 depositors.

A comparison with the development of Ordinary insurance in the United States presents a similar contrast. Although the Ordinary companies have been in active operation for some sixty years, the sum total of their efforts shows only 3,000,000 policyholders in 1900 against the more than

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11,000,000 policyholders of the Industrial companies. Included in the number of Ordinary policyholders are 340,000 insured on this plan with the principal Industrial companies, so that, as the net result of more than half a century of Ordinary insurance operations we have only one Ordinary policy in force to every four Industrial. While the average amount of insurance is, of course, vastly greater, the social and economic result is almost the same, since, according to each one's need, \$500 is as much to the widow of a poor man as \$5,000 to the widow of the moderately well-to-do.

This comparison may be further extended to fraternal organizations, the majority of which have some more or less effective insurance provision as an additional attraction to the general social and economic objects for which they were originally and primarily established. According to a recent statement, there are now about 2,600,000 members in these organizations,* which number cannot be considered large when we take into account the immense field and opportunity for their development. The insecurity of this plan of family protection is in marked contrast to the methods and results of Industrial insurance, and the general development of life insurance as a provident institution cannot be said to have been advanced by organizations which by frequent failures have done so much to disturb public confidence in this form of family protection. The more extensive development of Industrial insurance is largely the result of the absolute security of invested funds and the certainty that "the promise to pay" will be faithfully carried out at the proper time.

The history of The Prudential Insurance Company of America is in so large a measure the history of Industrial insurance in the United States that a recently published volume, descriptive of the progress of the Company and of

*Mr. Albert C. Stevens in *Review of Reviews*, January, 1900; figures for December 31, 1898. Prof. B. H. Meyer estimated the number in force in 1900 at about 5,000,000 in his article "Fraternal Insurance in the United States," *Annals of the American Academy of Political and Social Science*, March, 1901, Philadelphia. According to *The Insurance Year Book* (Spectator Co., New York) there were approximately 7,282,000 fraternal certificates in force on December 31, 1907, representing about \$8,079,743,000 of insurance.

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this form of insurance in general, may be referred to as a work of interest and value to those who wish for more knowledge and details.* As pointed out by Prof. Roland P. Falkner in his review of the "History of The Prudential," "It is an authoritative work on a widely diffused form of thrift but little known outside of the working classes, to which it specifically appeals." The book formed part of an exhibit of methods and results made by The Prudential in the social economy section of the Paris Exposition of 1900. In the final report of the Commissioner-General to Congress, the subject is referred to at length, including the statement that "Though the Company provides both Ordinary and Industrial insurance, it was with the latter branch that the section of social economy was chiefly concerned and it was for its exhibit in this field that the Company received a Gold Medal." † To the general public endorsement of Industrial insurance as an effective method of family protection there has thus been added the unqualified approval of an international jury of experts, not only of life insurance as such, but of life insurance in its relation to public welfare and social betterment. ‡

With more than 11,000,000 policyholders, Industrial insurance has, in 1901, reached a position where further progress will not only be in the direction of increased numbers, but especially toward a higher development of office and field organization, of the Industrial policy contract, and of the general relation of Industrial insurance to public welfare. As to further numerical progress, it may be pointed out that the results obtained in New Jersey mark the possibilities in other States. Here we have a population of 1,883,669 and

* *History of The Prudential Insurance Company of America, 1875-1900*, by Frederick L. Hoffman; The Prudential Press, 1900.

† Report on the International Universal Exposition at Paris, 1900, vol. II, pp. 440, 441, Washington, 1901.

‡ A larger exhibit of its business methods and results made by The Prudential at the Louisiana Purchase Exposition, St. Louis, 1904, received the Grand Prize; an exhibit by the Company at the Jamestown Tercentennial Exposition received a Gold Medal; and an exhibit of charts showing the mortality from consumption in dusty trades at the International Tuberculosis Congress at Washington, 1908, received a Gold Medal, in all cases the highest possible award. No other life insurance company in the world has received international honors corresponding to those received by The Prudential.

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1,268,360 Industrial policies, representing an estimated insured population of 975,000. In other words, fifty-two per cent. of the people of New Jersey are to-day insured with Industrial companies on the Industrial plan. Still better results have been obtained in the city of Newark, where the Prudential was organized in 1875. Here we have a population of 246,000 and about 260,000 policies in force, representing an estimated insured population of 200,000. In other words, about eighty per cent. of the population of Newark are insured with Industrial companies on the Industrial plan. It is not going too far to anticipate the time, certainly within another quarter of a century, when the results obtained in New Jersey will be general for the country at large and when, of the insurable population of the cities, four-fifths will be policyholders in Industrial companies. Thus far the business has been largely confined to the cities, but by degrees the operations of district managers have been extended to the rural and agricultural sections, indicating possibilities of development and growth in a new direction and in a new field. Even among the more prosperous elements of our population our experience proves that there are many to whom an Industrial policy is a safeguard against an hour of need. The proceeds of an Industrial policy are often more than sufficient to pay burial expenses, leaving the proceeds of an Ordinary life insurance policy or of other investments intact for the benefit of the surviving members of the family.

The evolution of the Industrial policy contract is in itself a most instructive phase of life insurance development. To-day the Industrial policy contains all the usual provisions and privileges of a regular Ordinary contract, and there has been added in recent years a liberal clause regarding revivals, by which the premiums in arrears can be charged against the policy as a lien without interest, making the lapse of a policy unnecessary when the desire for its continuance

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exists. All restrictions as to service in the army and navy in time of war have been removed and the method of claim payments has been materially improved.

The relation of Industrial insurance to public welfare has already been touched upon in the remarks as to the decrease in pauper burials since the introduction of the business in this country. This, of course, is only one phase of a large and complicated aspect of the general problem, but it is of interest to note that, on the basis of trustworthy data supplied by city officials in all parts of the country, it appears that if the earlier pauper burial rate had prevailed during the past five years there would have been approximately 140,000 *more* pauper burials in the cities of the United States than was actually the case. This represents an average annual decrease in the number of pauper burials of 28,000, the large majority of which represent persons who under the earlier conditions would have been buried through the assistance of the State. Since the average cost of a pauper burial is about \$7, the annual saving to the cities represents not less than \$200,000. This, however, is only a fraction of the actual saving to the State resulting from this form of family protection. The companies now pay annually over \$20,000,000* in claims to the beneficiaries of Industrial policyholders, and the value of this method of insurance must necessarily increase with the increasing age of the companies.

In many other directions Industrial insurance is becoming a valuable auxiliary agency in the development of measures and means for the health and general welfare of the masses. The companies are especially interested in problems of preventive medicine, and, as an evidence of this interest, The Prudential last year complied with the request of the executive committee of the London Congress on Tuberculosis for data and charts illustrating its experience. The data

* During the year 1908 approximately \$36,700,000 was paid to Industrial policyholders and their beneficiaries in the United States.

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contributed proved a valuable addition to the accumulated experience, and the charts have been permanently placed on exhibition with the Sanitary Institute of Great Britain.* In this and in many other directions the scientific results of Industrial insurance experience are being made to contribute to measures for the gradual improvement of the conditions of life of the working people of this country.

Much more could be said on so vast and intricate a subject as the causes of the growth and the reasons for the enduring stability of so effective a form of thrift as Industrial insurance, but the limits of this article forbid a more extended consideration. I cannot better conclude these few observations than by quoting a statement which, though originally applied to savings banks, is equally applicable to our business: "The institution that lives, succeeds and accomplishes results; which grows, expands and adapts itself to the varying phases of the social necessity which it was ordained to minister unto, is an embodied law of the social fabric; it is an organic function of society itself, and is to be watched, guarded and cared for with solicitude."†

The history of the first quarter-century of Industrial insurance in the United States is a record worthy of the highest praise, for it represents the results of a successful effort on the part of the American people to provide for their own wants in their own way. The future of the business is full of promise, with every evidence that its operations will be more widely extended and that its utility will be considerably improved. The progress which has been made during a quarter of a century, wonderful as it is, will sink into insignificance in comparison with the progress which will be made during the next twenty-five years, now that the benefits of Industrial insurance are more widely diffused and its value

* A chart exhibit of the mortality from consumption in dusty trades, contributed by The Prudential to the exhibit of the International Tuberculosis Congress, Washington, 1908, has, in response to numerous requests, been reproduced, to be utilized by State and local tuberculosis associations throughout the United States as a most effective aid in the campaign against tuberculosis.

† A History of Savings Banks, by E. W. Keyes, New York, 1876, vol. I, p. 2.

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is more generally appreciated among the millions of people in the United States. Whatever progress is made, while of the greatest possible benefit to the policyholders interested, will, nevertheless, prove also of material value to the public and the nation.

CHAPTER III

**THE
SOCIAL ECONOMY
OF INDUSTRIAL
INSURANCE**

**A LECTURE
DELIVERED BEFORE THE SENIOR CLASS
OF
YALE UNIVERSITY
1904**

THE SOCIAL ECONOMY OF INDUSTRIAL INSURANCE



INDUSTRIAL insurance is of comparatively modern origin in this country. All forms of life insurance are the result of slow development in theory and practice, but for Industrial insurance it may be claimed that it is the outgrowth of ages of experiments to provide, by an effective and absolutely certain method, for the financial needs of the mass of the population at the hour of bereavement. The mass of the people are confronted by the fact that death means a large expense—often a burdensome debt—to meet the cost of burial, or a heavy draft on slender savings, the result of years of abstinence and foresight, or the alternative of state or private charity. However remote the chance of death may appear at times, it is an ever-present contingency, for which an effective provision has become a necessity in civilized life.

Industrial insurance is so called because the system is primarily designed to meet the needs of wage-earners employed in manufacturing industries, and the weekly premium payments coincide with the weekly payment of wages and salaries. The premiums are from five cents to seventy cents a week.* The system provides for family insurance on a comprehensive plan, and every member of the family at any age from one to seventy, if in good health, is insurable. The weekly premiums for a family of five average about thirty-five or forty cents, being respectively ten cents each for the father and mother and five cents each for the children. The amounts of insurance vary with age, but average about one

* Policies with three-cent premiums were issued by The Prudential during the period 1875 to 1892. They were discontinued March 21, 1892, but beginning with January, 1907, this form of Industrial policy has again been issued by The Prudential.

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hundred and fifteen dollars.* For children under age ten the average is thirty dollars, and for persons over age ten, one hundred and fifty dollars. The system is sufficiently elastic to meet the needs of the most humble laborer, even though advanced in years, as well as the requirements of the more prosperous mechanic or skilled workman, able to pay premiums for enough insurance to provide for more than the immediate needs of his family after his death.

The premiums are collected weekly from the houses of the insured by authorized agents, who are also required to solicit for new insurance. While the collection of weekly premiums necessarily increases the cost of insurance, the difference is relatively small when the great convenience of this method is taken into account. Attempts, especially by the British government, to transact a weekly-payment system of life insurance without collectors have failed. Efforts to transact a life insurance business on the monthly-payment plan have not been successful to any considerable degree. These are the simple elements of a business which has grown to immense proportions during the twenty-eight years since The Prudential Insurance Company of America was organized, in 1875, as the first company to transact this form of life insurance in this country. The total number of Industrial policies in force in the United States on January 1, 1904, was approximately 14,625,000.†

Industrial insurance had its origin in England, and the evolution of the business can be traced backwards by an unbroken record through friendly societies and burial clubs to the trade and craft guilds of the fifteenth century. The development was the inevitable result of economic laws making for a higher degree of efficiency and security in social institutions. This is not the place, however, to go into the

* The average amount of the Industrial policies in force in the United States, December 31, 1908, was \$136.

† On January 1, 1909, the number of Industrial policies in force in the United States was 19,687,675.

The Social Economy of Industrial Insurance

history of these interesting associations for social betterment under different conditions of life. They served their purpose at the time, but they would ill meet the conditions of the present.*

In 1853 a comprehensive investigation was made by a Parliamentary committee into the practice of life insurance companies in England, and among other conclusions the committee advanced the view that "the ground hitherto occupied by these useful institutions (life assurance associations) has been comparatively limited, and that their application is capable of a great extension, not only in the higher and middle classes of society, but also among the humbler classes, to whom it has recently been very considerably applied."

Acting on this suggestion, the Prudential of London, organized as an Ordinary life insurance company in 1848, made inquiries and ascertained that, almost without exception, the then existing so-called friendly societies and burial clubs were in an unsound financial condition, while many indeed had failed, with disastrous results to the people they were supposed to benefit. A modest attempt had been made by the Industrial and General and by the British Industrial, among other English companies, to transact the business of life insurance for wage-earners on a commercial basis, but the results had not been very encouraging. The Prudential, however, realized the immense opportunity to extend the principles of life insurance to the broad field of workingmen's insurance in general. On the recommendation of the best available actuarial talent, required for the construction of tables and plans, The Prudential, in 1854, commenced the business of Industrial insurance, destined to make it one of the great life insurance companies of the world.

During the fifty years which have passed since the introduction of Industrial insurance the business has been

* See article on *Gilds*, in Walford's *Insurance Cyclopaedia*, vol. V, p. 341 et seq.; also article on *Friendly Societies*, by the same author, *Insurance Cyclopaedia*, vol. IV, p. 379 et seq.

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extended to almost all civilized countries, with more or less success; but the development has been greatest in English-speaking countries, and there are now (January 1, 1904) more than forty millions of Industrial policies in force in the world. Of this number over one-half are in force in the United Kingdom, about four millions in Germany, and not far from half a million in Australia.*

There are now (1904) in force in this country almost fifteen million Industrial policies; or, with five policies to a family, it would appear that about three million families in the United States are insured with Industrial companies for sums which range from \$15 to \$1,000. When we take into consideration the fact that there are about fifteen million families, we have it that at present about one family out of every five is financially interested in the success and future of this form of life insurance in the United States. When we further consider the fact that the total number of savings banks depositors is only about seven millions†—although we have had savings banks since the beginning of the nineteenth century, and Industrial insurance for only a little more than one-fourth of that period—it will be conceded that Industrial insurance is a social institution of great magnitude.

The *office practice* of Industrial insurance is, in a general way, almost identical with the practice of an Ordinary company, using that term in a technical way; and nearly all of the Industrial companies transact, in fact, an Ordinary business as a complement to their particular system of family insurance on the weekly - premium - payment plan. The essential points of difference arise out of the vast number of necessary office transactions resulting from the weekly collection of premiums from the houses of the insured and the character of the class of risks assumed under Industrial policies. It would carry me too far to discuss, even in a general

* A conservative estimate of the number of Industrial policies in the world on January 1, 1909, is 58,000,000.

† On January 1, 1909, there were about 9,000,000 depositors in savings banks in the United States.

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way, the office and field administration of an Industrial company, and my remarks are, therefore, limited to essential points.

First. The calculation of premium charges for both infantile and adult risks is upon a sound actuarial basis derived from trustworthy mortality tables. The premiums vary with age, but there are practically no restrictions as to occupation or residence. Careful inquiry is made as to the moral character of the risks assumed.

Second. The collection of premiums from the houses of the insured is made by authorized collectors, or agents, who are under a most effective system of supervision, supplemented by an audit system of weekly accounts and debits and credits, by which defalcation, fraud, and intentional errors are made difficult and, generally speaking, impossible. Every policyholder has a premium receipt book in which the weekly payments must be entered by the agent, while at the same time a corresponding entry is required to be made in the agent's collection book. The system has worked so well that during the half-century since Industrial insurance has been in operation no important changes have been made in this branch of office practice.

Third. To every person insured is issued a policy which in all essentials conforms to the contract issued to Ordinary policyholders. The language used is so plain and free from confusing technicalities that it is seldom indeed that there are controversies or misunderstandings between the company and the insured. The contract provides for a definite sum payable in the event of death in return for a definite weekly premium; but, in addition, certain privileges and options are granted to the insured, which provide for a paid-up policy after three years, for additional benefits after five years, for cash dividends after fifteen years, and for a cash surrender value after twenty years.

Fourth. Every policy contains a provision that all

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premiums must be paid in advance on the Monday of the week for which they are due. In the event of a policy being more than four weeks in arrears for non-payment of premiums, the agent is required to report the policy for lapse. Most of the lapses of Industrial policies occur during the early weeks of policy duration, when only a few premiums have been paid. Policies can be revived without difficulty provided the arrears do not exceed one year, but it is required that the applicant for revival pass a medical examination or furnish other evidence of being in good health. There are no fines, and every facility is granted to keep the policy in force. If the arrears exceed thirteen weeks the policy may be revived without the payment of arrears, but in place thereof a non-interest bearing lien will be issued, the amount of which is deducted from the face value of the policy when it becomes payable as a claim.

Fifth. In the event of death every effort is made to pay the claim as soon as possible, to carry into effect the general intent of Industrial insurance to provide for the burial expenses of the insured. The proof of death, however, requires to be supplemented by documentary evidence: *a*, claimant's certificate; *b*, certificate of identity; *c*, certificate of the superintendent or assistant superintendent; *d*, certificate of the undertaker; *e*, certificate of the attending physician.

Sixth. The agency system of Industrial companies is in a measure unique and deserving of special mention. A large number of agents are necessarily required to conduct the office and field operations of a company insuring millions of risks, for I may point out in passing that 95 per cent. of the entire Industrial business is carried on by three companies.* The office organization consists of a large number of departments, which cannot very well be dealt with on this occasion. I have elsewhere, in my address on "Life Insurance

* On December 31, 1908, 93.2 per cent. of the Industrial policies in force in the United States were with the three largest companies.

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as a Career," elaborated upon this part of my subject. The field operations require a superintendent in charge of a district, who is aided by a number of assistant superintendents, under whose direction is an agency force that varies in number according to the size of the territory. On an average an agent makes collections from about five hundred to six hundred policyholders, but his compensation is so adjusted that it is necessary for him, in addition, to solicit for new insurance. By this means it is to his pecuniary interest to prevent the lapsing of policies and to increase as far as possible the number of policies in force. The amount of collectible premiums is called the "debit," and the agent is held responsible for the condition of his accounts. His books and papers are periodically inspected by assistant superintendents who have a thorough knowledge of the business and are personally familiar with all the insured, so that in the event of the resignation or death of the agent there is no interruption or intermission in the collection of the weekly premiums.

With these facts clearly stated we may now consider the place of Industrial insurance in practical economics. President Hadley very properly draws a distinction between public and private wealth, and points out that "the growth of national wealth depends upon causes far deeper and more profound than those that the statesman or legislator can control." * In life insurance we have a species of material wealth representing more than two and a quarter billions of accumulated funds as security for the faithful discharge of promises made and obligations incurred, and, in addition, a vast amount of economic security resulting from the successful elimination of a risk inherent in the uncertainty of human life. We may, therefore, it seems to me, speak of life insurance, and in particular of Industrial insurance, as "public wealth" in the true and complete sense of

* *Economics*, by Arthur T. Hadley, New York, 1897, p. 12.

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President Hadley's definition. He insists upon the supreme importance of *security* and the institution of *property*, to render possible the progress, social, moral, and economic, of the race, for it is only by accumulated wealth that men are more or less removed from the immediate and destructive pressure of poverty. While, no doubt, much of human poverty is unavoidable and inherent in the very constitution of society, a vast amount of existing misery is preventable by the development of right habits of savings and insurance—by frugality and efficient industry. Abstinence from the immediate use of money as soon as earned is of the utmost importance in the economic development of the people. No other means have yet been discovered to insure the economic security of the masses as effectually as by insurance. President Hadley well says that "great evils arise from trusting too much to Providence and not making a distinct personal effort to meet the contingencies of life," and no method has yet been devised by which the contingency of death, especially of premature death, can be better provided for than by life insurance. Although the sphere of Industrial insurance is limited to the providing of relatively small sums as security against death, they are large indeed when considered from the viewpoint of the masses who consume their weekly wages almost as soon as earned.

The place of life insurance in social economics is, therefore, most important. The accumulation of capital, the struggle of the masses for property and economic independence, the possibility of a more equitable and general distribution of wealth, are all problems which rest fundamentally upon the power and habits of the people to save. But saving habits are acquired only with great difficulty, and the ordinary savings bank is far from being the evidence of workingmen's thrift which it is often assumed to be. Hon. Carroll D. Wright has estimated that not more than one-half of the sum on deposit with savings institutions represents accumulations

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of wage-earners, the remainder being the investments of the relatively well-to-do. Industrial insurance serves both an economic and a social purpose. It is the most effective, even though perhaps the most elementary, education in thrift which has yet been developed. The weekly premium payments develop systematic habits of saving and lead to the accumulation of millions which but for this method of insurance would be expended largely for needless and often vicious purposes. The usual method of accumulating savings banks deposits is in marked contrast to Industrial insurance premium payments, in that, as a rule, deposits are made at irregular intervals and not in the small sums which represent true foresight, frugality, and abstinence from needless expenditures.

The weekly premium payments soon become a habit of life, even with the young, who in time learn to pay the five or ten cents a week necessary to meet the expense of their own insurance. The education in thrift, however, does not end here. Systematic habits of saving are developed which have their effect in other directions, and the conclusion is quite in accordance with our experience that general saving habits, accumulations in savings banks, or payments for building loans, *follow* Industrial insurance rather than precede it, and are most widely diffused among the people where Industrial insurance is most general as a mode or method of family protection. For illustration: In this country Philadelphia, Pa., and Dayton, Ohio, are often referred to as cities in which building and loan associations have made most progress, but they are also cities in which Industrial insurance is most general as a method of family insurance. In England, it is claimed on good authority that school savings banks and penny provident funds have been most successful in Manchester, Liverpool, and Birmingham, but these are also the cities in which Industrial insurance is almost universal, so much so that at least four-fifths of the entire population of these cities hold Industrial policies.

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Industrial insurance is not only of great value as an aid to the development of general saving habits and the accumulation of property, but it is a contributory agent of great importance in the progress and public appreciation of other forms of insurance—Ordinary life, fraternal, accident, fire insurance, etc. Industrial insurance has enormously extended the field of other methods of insurance by familiarizing the mass of the population with the elementary principles and beneficial results of a method of life insurance particularly adapted to special needs. Industrial insurance came into existence in the United States at a time when public faith in financial institutions, savings banks, Ordinary life insurance companies, and, especially, so-called workingmen's insurance on the co-operative plan was profoundly shaken by panics and financial depressions and evidences of mismanagement and fraud. Industrial insurance has kept faith with the people, and every promise made has been fully carried out. Security, stability, permanency, have been the watchwords, and no social institution of to-day is established on a more scientific and trustworthy theory of mortality and finance than the vast structure of Industrial insurance with its more than forty millions of policyholders in different parts of the world. It is not going too far to say that this method of life insurance protection forms to-day one of the most effective measures making directly or indirectly for accumulation of property. However small the premium payments and however small in many cases the individual returns, the fact remains that fifty-two times a year payments are made, and these lessons in thrift and accumulation are taught and brought home to an element of the population which is most in need thereof.

We often hear the old complaint that there is no real progress, but only a shifting of wealth, by which the poor are made poorer and the rich grow richer. Relatively this is true, for, by contrast, in a more advanced society the condition

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of the very poor becomes more striking and apparently less necessary. Actually, however, our progress during the past half-century has been real and of vast benefit to the mass of our population, who in an ever-increasing proportion are attaining a relatively high degree of economic security and social well-being. The object of all thrift agencies is not only to aid persons to become savers in the first instance and to accumulate a fund for future contingencies, but also "that they may have the consciousness of being removed (by their own efforts) from the burden of relief-receiving."

Industrial insurance provides a sum certain, from \$15 to \$1,000, at a time when in many households no ready money is otherwise available for the expenses incident to death and the last illness. The problem reduces itself to the necessity: that the burial of the father or the child must be paid for, that it will cost at least from \$15 to \$100, and that this sum must be provided for either by the convenient method of Industrial insurance or by a draft upon a sum possibly accumulated during years of careful husbandry of slender resources or by the incurrence of a debt with the undertaker and the doctor. With the last as the alternative, it is an open question whether an undertaker can be found who will take the risk, and there will often be no escape from the necessity of an appeal to the public poor fund or for private charitable relief. The poor have their standard of life and customs as thoroughly established as the well-to-do or the rich, and, however humble their station, they prefer the burial of their dead at their own expense in a manner which to them represents the common decencies of life.

Deep at the root of the problem of life insurance for the the poor lies their abhorrence of a pauper burial and their willingness to provide out of present savings for a future contingency and the ever-present possibility of premature or unexpected death. As the result of the introduction of

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Industrial insurance into the United States there is now returned to policyholders about \$25,000,000 per annum in the payment of claims alone, and the relative number of pauper burials has been materially reduced during the past twenty years. On the basis of a conservative estimate there would be 25,000 more pauper burials per annum in American cities if this system were not in almost universal operation. From a moral and sentimental point of view, therefore, the value of Industrial insurance as making for a higher standard of family life cannot be overestimated. It certainly is a matter of considerable importance in the life and struggle of many who are on the very verge of pauperism and dependency to know that at the end of their earthly difficulties they will not be cast away in a potter's field.

But the good effect of Industrial insurance as a direct means of reducing pauperism does not end here. In many instances a sufficient sum remains, after the payment of funeral and doctors' bills, to establish the widow in some kind of business, on a small scale perhaps, but sufficient to provide the necessary means of support for herself and children. As a rule there will be other savings available, for Industrial insurance suggests the advantage and importance of other forms of investment and encourages economy in family expenditures. How far the burden of poor-relief, indoor and out, has been actually diminished cannot be stated with even approximate accuracy, but there are some very significant data for certain States and cities which indicate that, regardless of a large immigration, there has been, during recent years, a relative and substantial decrease in the number of paupers and in the amount paid out for poor-relief.

The indirect results of Industrial insurance are, therefore, of very considerable importance. Just as the vast accumulations in savings banks are to a considerable extent the aggregate of a large number of small deposits, so in Industrial insurance the assets of about \$150,000,000, held as

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reserve and surplus, represent a vast amount of *capital* as the result of small weekly payments which average about ten cents.* These accumulations do not stand for idle capital, but for public wealth in the complete sense of the term. It is wealth made available for the conduct of general business, of active enterprise, and other social and economic ends. Of the two billions of assets held by American legal reserve life insurance companies 75 per cent. is invested in stocks, bonds, and mortgages, 8 per cent. in real estate, 6 per cent. in loans on policies, and the remainder in other forms of investment and as cash in bank. The absolute necessity for life insurance companies to earn a certain rate of interest on their investments makes it of the highest importance that the assets should be constantly employed in profitable enterprises, thus increasing materially the national prosperity and social security of the people.

I, therefore, do not go too far in holding that the indirect results of this form of insurance, with its encouragement of systematic saving, are at least equally important with the direct results represented by the annual payment of over \$25,000,000 in claims, etc., to Industrial beneficiaries. The creation of capital by this method of insurance is indeed of far-reaching importance, even to the laborer or wage-earner, whose economic security and opportunity for employment are enhanced by the real amount of capital made thus available for increased production. There is no more generally accepted postulate in economics than that "in proportion to the increase in capital the share of the annual product falling to capital is augmented absolutely but diminished relatively, while the share falling to labor is increased both absolutely and relatively." Considered from this point of view alone Industrial insurance makes for a more general and equitable distribution of wealth.

The success of Industrial insurance may be summed up

* On December 31, 1908, the aggregate reserve held by the Industrial companies for the protection and benefit of the Industrial policyholders and their beneficiaries was approximately \$220,000,000.

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in a remark made by Abraham Lincoln, that "with public sentiment on its side everything succeeds—with public sentiment against it nothing succeeds." The system of family insurance forms an integral part of the domestic economy of the American people. Organized in the State of New Jersey, the progress in local development has been most complete in that State and in the adjoining States of New York and Pennsylvania. In New Jersey there are now about 1,500,000 Industrial policies in force, indicating that about 65 per cent. of the aggregate population is insured. In certain sections of Newark, of New York City, of Philadelphia, and of other large cities, the system is so general that from 75 to 95 per cent. of all insurable persons hold Industrial policies.

We have made a number of investigations to ascertain the actual extent of Industrial insurance in various cities, and there is one significant fact which we have learned, especially in and around Newark—that the proportion of population insured on the Industrial plan is somewhat higher among those who own their own homes than among those who do not. Whether as cause or effect, the fact remains that the progress and development of the business have been most satisfactory among the thrifty and stable element of our industrial population. We can go further and say that policyholders are in other respects a superior class. For illustration: We find by our mortality statistics that the death rate of insured children is less than the mortality of children in the general population as determined by the census. Our percentage of deaths from intemperance and alcoholism is less than that expected by the general standard of mortality, and, finally, we find that our ratio of deaths from homicide and suicide is below the average for the country at large. I mention these facts, which are supported by irrefutable evidence, to show that there is a close relation between Industrial insurance and the progress and well-being

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of the industrial population, and that the Industrial policy-holders represent a more thrifty, more temperate, and more law-abiding element than the uninsured.

It remains for me to speak of the evolution of Industrial insurance and the adaptation of the business to new conditions. When established, in 1875, the financial and industrial conditions were such as to call for an elementary form of life insurance, with absolute security as the first consideration. By slow degrees public confidence in insurance and financial institutions was restored, and as early as 1881 it became necessary to issue a special policy for the round sum of \$500, to meet a distinct and increasing demand from the superior element of our industrial population. By 1886 the insurance education of the masses had gone far enough to make it seem advisable, and, in fact, necessary, to establish an Ordinary department. That was less than twenty years ago; but during the intervening period the three Industrial companies which transact 95 per cent. of the business in this country have built up a vast Ordinary business with about 720,000 policies and \$800,000,000 of insurance in force.* At least one-half of this sum—and perhaps three-fifths—represents Ordinary insurance on the lives of wage-earners, or persons in positions or situations practically outside of the field of the solicitor for exclusively Ordinary companies. The number of persons insured with Industrial companies for both Industrial and Ordinary is indeed quite large and constantly increasing. The Industrial policies are held primarily for the payment of expenses incident to death; the Ordinary for family protection, education of children, and other purposes of social and economic importance. Coincident with the progress and evolution of Industrial insurance there has been a material improvement in the Industrial policy contract, which to-day contains all the essential and important provisions and privileges of the regular Ordinary policy. So

* On December 31, 1908, the Industrial companies had 1,295,942 Ordinary policies in force, representing \$1,317,887,524 of insurance.

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we see how close is the relation between the two forms of insurance and how important is Industrial insurance as an education in general insurance theory and practice, making gradually, but with certainty, for the social and economic security of the people.

If there is any one thing that "social classes owe to each other" it is that all shall aim and work to diminish the needless suffering and unnecessary burdens of those for whose well-being and future protection we are individually or socially responsible. The evidence is conclusive that the mass of our population is engaged in a heroic struggle to escape from dependent poverty to relative economic and social freedom, and whatever contributes toward this much-to-be-desired end is certainly deserving of sympathetic consideration. I believe that in Industrial insurance we have a most valuable aid in this effort for social betterment on a large scale, and the evidence is conclusive that a vast amount of direct and indirect good is accomplished by this elementary, but effective, form of thrift. During the almost thirty years since Industrial insurance has been in active operation in this country, gradual but constant progress has been made toward a higher degree of social efficiency, so that we may hopefully look forward and anticipate a time when this form of insurance will be indeed a social institution of universal utility, in every respect a far-reaching power for good, directly to the people and indirectly to the nation. I believe that the evidence warrants the conclusion that Industrial insurance makes first for private wealth and second for public wealth, as well as directly and indirectly for the all-important end of a higher degree of security for the industrial population of this land.

CHAPTER IV

THE PRACTICE OF INDUSTRIAL
INSURANCE

STATEMENT MADE
TO A SELECT COMMITTEE OF THE
NEW JERSEY SENATE
APPOINTED TO INVESTIGATE
LIFE INSURANCE
1906

THE PRACTICE OF INDUSTRIAL INSURANCE



INDUSTRIAL insurance is life insurance for small amounts, chiefly on the lives of wage-earners and members of their immediate families, with premiums payable weekly and collected from the houses of the insured. Industrial insurance had its origin in England, where, after the dissolution of the guilds under Henry VIII, friendly societies assumed the task of providing for the needs of members in sickness or at death, in return for fixed contributions.* In course of time the insurance element of this primitive method of social science attracted the attention of scientific men, and by slow degrees the system was perfected until the rates, or premium charges, were adjusted to the ages of the insured. In many, in fact in very many, of these societies the assumption of an enormous rate of mortality did not receive proper consideration until the societies had fallen into a hopeless state of insolvency, and a large number of disastrous failures of friendly societies and burial clubs is a matter of historical record. From time to time Parliament made inquiry into the subject, and in 1853 a committee of the House of Commons recommended the extension of life insurance to the masses upon the same sound principles of mortality and finance which underlie level-premium insurance on the so-called Ordinary plan. Acting upon this suggestion, the Prudential Assurance Company of London, in 1854, began the transaction of a new form of insurance, which was thenceforth called Industrial,† to distinguish it from other plans, but chiefly because it was intended to meet the needs and conditions of the industrial, or wage-

* *Annals of the British Peasantry*, London, 1895, pp. 82-96.

† *History of the Prudential Assurance Company*, London, p. 3.

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earning, element of the population—in other words, the preponderating majority of the people of England.

At first the progress was slow. Caution was necessary lest a serious error of judgment in matters of office and agency administration should expose the new experiment in insurance to the risk of possible failure. From the outset the chief consideration was *security*, the absolute certainty that the contract agreement made with the people, in the form of insurance, would be kept. The public had been robbed by bubble companies and swindled by societies often parading under high-sounding names, which, upon the plea of fraternal interest, mercilessly fleeced the very poor of their last shilling. The question of the cost of the new form of insurance protection was, for the time, subordinate to the vastly more important consideration of absolute security. The essential point was then, as it is to-day, that the contract agreement, as embodied in the policy, for the ultimate payment of a definite sum in return for a specific weekly premium, should be faithfully kept. That promise of good faith is the rock upon which Industrial insurance has been built, and it is upon that rock that the immense popularity of this plan rests and challenges the admiration of the world.

After the first decade, or by about 1864, the business had reached proportions which left no question of doubt that within a comparatively few years the system of Industrial insurance would become a universal provident institution in the United Kingdom. The government of the day was made aware of the truly wonderful success of the Prudential, and upon the suggestion and urgent request of Mr. Gladstone, a system of post-office life insurance was established, which, it was supposed, in conjunction with the post-office savings bank, would attract the people in large numbers in active competition with private companies.*

* A History of Banks for Savings, by Wm. Lewins, London, 1866, pp. 345 et seq.

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Mr. Gladstone's plan was worked out with considerable skill upon the theory that the comparatively high initial expense of obtaining new insurance could be eliminated by making every post-office an insurance agency, where applications could be filled out, where policies could be secured, and where premiums could be paid. In time every postmaster became more or less an insurance agent for the government. Extensive publicity was given to the matter in various ways, but the attempt was a complete failure. Experience proved that the collector was indispensable, that the business would not come voluntarily, that the insured would not take the trouble to call at the post-office even once a fortnight, or once a month, to make the necessary periodical premium payments. All the appeals, by placards, leaflets, or otherwise, to the people to insure upon their own account through the post-office proved a waste of effort; the public simply paid no attention to the plan and continued to affiliate in ever-increasing numbers with the Prudential and with other Industrial companies which had been organized in the meantime.

The public did not want the kind of insurance offered by the government. The mass of the people were in need of insurance protection adjusted to their conditions and habits of life. They required a system of family protection, under which a small, but certain, sum would become payable in the event of the death of *any* member of the family. The government ignored this point. The Industrial companies met an existing need by methods derived from long experience. When it had been found, by observation, inquiry and experience, that the real problem to be met was one of *family* insurance, including the children, the companies adjusted their practice to this need, and upon the basis of reliable mortality data developed the essentials of the system of Industrial insurance practically as it is carried on to-day throughout the civilized world.*

* History of the Prudential Assurance Company, London, p. 12.

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The government system of post-office life insurance is still in operation. In the forty years that have passed, the post-office has issued 23,641 policies, and 13,080 policies are in existence to-day. The large majority of these are on the lives of post-office employees. The premium charges are about the same as—at some ages even higher than—the corresponding premium charges of private companies. The returns to policyholders have not been more favorable, but if anything less satisfactory, than those to policyholders of private institutions.* Efforts have been made from time to time to put new life into the plan, but to no purpose. A committee of Parliament in 1882 made a long report upon the subject and suggested changes, which, if adopted, would have made the post-office experiment practically a counterpart of the Prudential. The committee suggested the employment of solicitors, and the possible utilization of letter-carriers for this purpose. Children, it was recommended, should be admitted at least at as low an age as eight years, and this suggestion was adopted.† There is no need for me to go further into details, and it is sufficient to say that last year (1905) the Post-office Insurance Department issued only 741 new policies, against about 750,000 policies issued by the London Prudential alone. In forty years the government issued about the same number of policies as the Prudential issues in ten days.‡

The agitation of the subject and the success of the Industrial plan of insurance in England attracted much attention in this country. Conditions of labor and life were much the same. A large number of so-called fraternal or co-operative insurance societies were imposing upon the mass of the people, and failure after failure brought the facts to public

* For an extended discussion of the British system of post-office life insurance companies, see the *Spectator* of September 14 and 28, 1905.

† Report from the Select Committee on Post-office Annuities and Life Assurance Policies, 1882, pp. 6-7.

‡ During 1907 the Post-office Insurance Department issued only 492 life insurance policies and in 1906 only 641.

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attention, and the cause of sound workingmen's insurance became an issue which, in 1875, led me to organize in this State the Prudential Friendly Society, the first institution of its kind in America. I had studied the plans and methods of English societies and companies with care, and I had made myself familiar with the various reports of a Royal Commission, appointed in 1871, and which held sittings for a number of years, to inquire into the state of friendly societies, burial clubs and Industrial insurance in England. I soon realized that the existing plans of so-called fraternal or co-operative insurance societies in this country were defective, and that they could not possibly succeed. My investigations of the subject extended over several years before I took active steps to organize a society upon sound principles, which, like the Prudential of London, should become a household word in America and mark the beginning of a new method of thrift, of saving and insurance, in time to be universal throughout the United States. My investigations and experience convinced me later that a stock company would answer the purpose better than a mutual organization, and The Prudential Insurance Company of America was the result.

I have often had occasion to review the steps of our early history as they are more fully set forth in the "History of The Prudential"* and in various papers and public addresses on the subject of Industrial insurance. It is a wonderful history and without a parallel in the whole range of philanthropic or charitable enterprises. It is a chapter in the history of the American laborers' struggle for economic independence as deserving of credit and consideration as the problems of wages, working hours, and effective protection against accident and disease. Whatever opinion may be held, the facts are indisputable, that no other system of voluntary saving or insurance can compare with our business

* History of The Prudential Insurance Company of America, 1875-1900, by Frederick L. Hoffman, Prudential Press, 1900.

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in the number of contributors to a common fund. To-day in this country there are some sixteen million Industrial policies in force, in the world at large about forty-six million policies—a most effective protection against certain contingencies of life which cannot be met otherwise than by this method or plan of Industrial insurance.* It is chiefly in English-speaking countries that Industrial insurance has attained to the degree of a universal provident institution. But gradually the system is gaining a foothold in other countries, and among them I may mention Germany, where compulsory insurance, so-called, is supposed to meet all the needs of the people, and yet Industrial insurance companies now have over five million policies in force.† The business has made progress in Austria, Switzerland, Norway, Denmark, and other states of continental Europe. It has reached a comparatively high degree of development in Australia, in Canada, and even in South Africa. Everywhere the foundation principles are the same, everywhere the business is chiefly conducted by stock companies and upon the plan of weekly contributions collected from the houses of the insured. So much may be said in brief for Industrial insurance as a world-wide method of thrift and protection, as a universal provident institution without a parallel in the history of commercial and philanthropic enterprises.

Previous to the introduction of Industrial insurance as a method of family protection, the wage-earning element of the population was compelled to rely more or less upon insecure co-operative insurance societies or public charity for aid and assistance in the event of death. To-day, happily, this necessity no longer exists. To-day the protection of the family by life insurance is recognized to be a social and civic duty, and a pauper burial is held to be a needless disgrace. Pauperism as such has materially declined. The ratio

* On December 31, 1908, there were approximately 58,000,000 Industrial policies in force in the world and about 19,688,000 of that total were in force in the United States.

† For an extended article on Industrial insurance in Germany, see the *American Underwriter* for June, 1908.

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of persons in almshouses in the United States was 13 per 10,000 in 1880, against only 10 in 1903, according to the most recent data published by the Federal government.* If the earlier ratio prevailed at the present time there would be 24,000 more paupers in almshouses than is actually the case. But in New Jersey the rate has fallen from 19 per 10,000 in 1890 to less than 10 in 1903—the lowest point reached by any State of the North Atlantic division. We may rightfully claim some of the credit for this improvement in the condition of the poor in American cities. We claim, upon the facts of our experience, that we have, in a large measure, educated the masses in the first principles of saving and insurance. We claim that the good resulting from this method of thrift has powerfully reacted upon the entire social economy of the people and that millions to-day save and invest, who, but for the persistent teachings of Industrial insurance, would squander their money or waste their surplus funds, as was common before Industrial insurance came into existence.

I have spoken of the decline in pauperism and of the relative decrease in the number of persons in almshouses. I may go further and call attention to the remarkable decline in the pauper burial rate of American cities. We do not insure the lowest pauper element—if for no other reason, than the self-evident one that this class is without the means to pay the premiums with regularity—but we do insure a large proportion of comparatively poor people, who, but for this system of insurance, would be in constant danger of becoming public burdens in the event of a death in the family, of father, mother, or child. We offer to these people the only effective means yet devised to provide for their own needs at their own cost, by a slight deduction from their weekly income. The excellent results of the system are proved by the pauper statistics of large cities. The average annual pauper

* *Paupers in Almshouses, 1904*, Washington, D. C., 1906—special report of the Bureau of the Census, prepared by Mr. John Koren.

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burial rate before Industrial insurance came into existence was 23.4 per 10,000 of population; it had fallen to 15.6 by 1890, and to 11.8 by 1904. Upon the lowest estimate of expense the annual saving to American tax-payers on account of this reduction is \$250,000 a year. At least 30,000 persons are now buried annually, without state or charitable assistance, who would be buried in the potter's field if the present burial rate of paupers were the same as the rate prevailing before the introduction of Industrial insurance.

This fact alone would justify the system of Industrial insurance, if for no other reason than that it makes for a higher standard of life, for increased self-respect among a large class of people, struggling manfully to elevate themselves from a lower to a higher scale of living. The self-respect of the poor and of the moderately well-to-do is materially raised by the consciousness that in the most solemn hours of life the sorrow and suffering are not intensified by a sense of impending disgrace incurred in a burial in the potter's field. If Industrial insurance had done no more than this, it would fully have justified its existence. But this is a comparatively small matter when we take into account the aggregate of benefits resulting from this form of insurance. Above all would I place the education in sound insurance and in the value of investment and the enhanced faith in the value of property, which sooner or later lead to saving and insurance and investment in many other directions.

For thirty years our agents have been teaching to millions of men and women the first principles in the practice of sound life insurance. From the smallest beginnings the business has developed into one of enormous proportions. Commencing with a five-cent or ten-cent policy, millions of wage-earners have thus made their first start in the struggle for economic security, concluding with a savings-bank account or an Ordinary policy sufficient in amount to carry the family

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over a period of want. As early as 1886 The Prudential found it necessary to take this tendency into account, yielding to the lesson of experience and the pressure of its agents to issue Ordinary policies to Industrial policyholders. The demand was specific and reasonable. We at first were apprehensive, and we therefore commenced on a small scale. It required some years to educate our agency force to the new conditions, but in time we perfected our present system, under which every Industrial agent writes Ordinary insurance, chiefly among the Industrial policyholders. So successful have we been in this respect that last year, 1905, of our total issue of Ordinary business 64.5 per cent. was written by Industrial agents, and of all the Ordinary business in force 60.1 per cent. has been secured by our Industrial field force.

What has been the result? The total amount of Ordinary insurance in force has increased enormously. The three principal Industrial companies have to-day nearly one million Ordinary policies in force for the sum of nearly one billion dollars. Most of this insurance protection is on the lives of workingmen, or wage-earners—men of small means and small income. The average policy is for about one thousand dollars, a substantial sum of money, capital in the true sense of the word, made readily available at a time when other resources usually fail or come to an end. This is of immense value as a means of family protection, as providing funds for education, as security against the loss of a home, against burdensome debt, and even against the poorhouse as a last resort. You cannot separate this result from Industrial insurance. It is an integral part of the system to-day; a natural consequence of the education in thrift and systematic saving of small amounts, the one method of insurance being as important, and in fact as indispensable, as the other.

When Industrial insurance was introduced in New Jersey

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in 1875, life insurance progress was almost at a standstill, and many years of patient effort were necessary to restore public confidence in these useful institutions. The failure of the New Jersey Mutual, with its history of fraud and mismanagement, would ordinarily have been sufficient to cast the shadow of discredit upon any form of thrift, however meritorious otherwise; but countless benefit societies, so-called, workingmen's insurance schemes of all kinds, rising rapidly in public favor, reaching a maximum point of growth, and then collapsing, to the loss and grief of the members, had undermined the faith of the working people in the intrinsic value of all forms or methods of insurance. What the London Prudential had done for the English workingmen, The Prudential Insurance Company of America did for the wage-earners of the United States. The cause of genuine thrift was advanced to a point where the true merits of life insurance were recognized, where its value was clearly proved, and where a return to the older and insecure conditions of helpless dependence was made forever impossible.

The growth of the business since that time is a matter of official record. In 1880 the number of Ordinary policies in force in New Jersey was 20,350, or \$37 of insurance per capita. By 1890 this had increased to 34,605 policies, or \$62 per capita, and by 1905 to 165,109 policies, or \$141 per capita. Even greater have been the results in the Industrial branch. From nothing at the beginning, in 1875, the business progressed to 248,659 policies in 1885, 1,268,360 policies in 1900, and 1,687,885 policies in 1905. The present amount of Industrial insurance protection upon the lives of the people of this State (New Jersey) is \$212,214,727, chiefly with four companies, The Prudential and the Colonial, both of this State, the Metropolitan, of New York, and the John Hancock Mutual, of Massachusetts. About nine hundred thousand Industrial policies, among a little more than two million population, are in force with The Prudential alone. In Essex

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county The Prudential has over a quarter of a million Industrial policies in force among a population of something over four hundred thousand. No other section of the United States can show better results. In no other State is insurance, both Ordinary and Industrial, so universal and so generally in favor. The record speaks for itself and requires no further comment, but from the lakes of the Jersey hills to Cape May practically every other household is a patron of our Company, every family is more or less interested, and two workingmen out of every three are Prudential policyholders. This is a record, I believe, without parallel in insurance history.

The figures quoted emphasize the assertion that Industrial insurance is family insurance, including men and women, and children above the age of one year. Objections have been raised against the practice of issuing small policies upon the lives of children, but the objectors have never, to my knowledge, sustained their views by facts and evidence deserving of serious consideration. Generally reference has been made to an alleged case of murder for burial money during the early forties, a mention of which, by Thomas Carlyle, in "Past and Present," is probably the sole source of information relied upon.* The proof was not conclusive even in that classic case of long ago, and no proof has since been produced that the system of issuing policies upon the lives of children has been injurious to child life and well-being. With a recklessness unworthy of men otherwise careful and deliberate, a few writers have cast serious reflections, not only upon the companies transacting Industrial insurance, but even more so upon the millions of wage-earners, men of industry and toil, who for years have found this form of insurance best adapted to their needs.†

Little indeed do these men know of the real life of the

* *Past and Present*, by Thomas Carlyle, centenary edition, New York, 1897, vol. X, p. 4, first published in 1843. See also Kay's *Social Condition and Education of the People in England*, New York, 1863, pp. 82-94.

† For a full statement of the controversy on this subject, see *Life Insurance of Children*, by Frederick L. Hoffman, Newark, 1903.

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people, of their motives for sacrifice and of their efforts to attain to a higher standard of life, efforts far transcending in pure unselfishness any corresponding desire among the more prosperous and well-to-do. More truly has a keen and impartial inquirer, in behalf of the United States Department of Labor, said: "These figures show that insurance is held in high esteem, but they do not tell how great a moral force it is in the lives of the poor. How is it that people who are barely holding soul and body together, and who are so sorely pressed by the demands of the present, will surrender so large a part of the income, sometimes a tithe of it, to the purchase of a benefit that can accrue only in the future? The sentiment which prompts the poor to invest in insurance is akin to piety; if death should come into the family they want the household to be protected from harsh and profane influences and they want the departed one to receive a decent burial."* And this view we know, in the light of thirty years' experience, to be the absolute and indisputable truth.

The facts in the case are that the amount of the average claim paid in the case of insured children of ages under ten is less than thirty dollars, while in comparison the average burial expenses of a child are forty dollars, or more. The amounts of insurance which can be obtained are strictly limited, and no premium higher than ten cents per week is received upon the life of a child. The subject has several times been carefully investigated by Parliament in England, in different States of this country, and in Canada, but no legislative verdict is on record which sustains the false and even malicious allegation of wrong and crime against the wage-earners of this and other countries. In the commonwealth of Australia the whole subject quite recently received exhaustive consideration, and, after discussing every phase of it in Parliament, a bill was passed in which the specific amounts allowed to be granted were in strict conformity with the office practice

* Bulletin of the Bureau of Labor, No. 64, May, 1906, pp. 613 and 614.

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of the companies, and about the same as the maximum amounts which can be insured for in this country.*

In this connection I may call your attention to the fact that although under the original plan of Mr. Gladstone the British system of post-office insurance fixed the minimum age at sixteen, the special committee of 1882 recommended a material change in this respect and said: "As regards the minimum age, it has been reported that in the case of these small insurances, which are chiefly made the object of paying funeral and medical expenses and providing nursing, the motive which prompts a father or mother to insure their own lives must make them equally desirous to insure the lives of their children. Your committee, therefore, recommend that the insurances for small amounts, say not exceeding £5, should be permitted in the case of children between eight and fourteen years." To this significant statement the committee add: "*In recommending this extension of insurance to children, your committee attribute much importance to the encouragement which may thus be given to continue insurance in after life.*" The recommendation, I may add, was adopted.†

I may also direct your attention to another important fact which I do not think is generally known. The Salvation Army in England has for a number of years transacted Industrial insurance as a distinct branch of its philanthropic enterprise, but upon a business basis and with rates and policy conditions about the same as those of the strictly commercial companies like the Prudential, the Pearl, or the British Workmen's. In 1901 the society had 266,000 Industrial policies in force, and now has probably not far from half a million. Although General Booth had called attention to the allegations of child-murder for insurance money in his well-known book, "In Darkest England and

* Parliamentary debates, Commonwealth of Australia, session 1904-1905.

† Report from the Select Committee on Post-office Annuities and Life Assurance Policies, London, 1882.

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the Way Out" (p. 83), the insurance branch when established followed private insurance companies in all details, including children, even from their birth, as insurable members of the family. From time to time the Salvation Army has publicly discussed this subject and the suggested Parliamentary prohibition of the practice. After calling attention to the words of the General, that "the abuse of a thing is no argument against its use," it was stated, in 1900, that "it would be just as reasonable to prohibit chemists from dealing with poisons, which are admittedly useful in certain quantities, because of suicide through improper use; or to prohibit people from riding a bicycle because there have been some fatal accidents. *There never has been any legal, or, indeed, any other proof of abuse of child life assurance to justify any change in the present law.*" I do not think that any one will question the sincerity and sound common sense of this view, expressed by an agency for social reform which has the universal approbation of mankind and which, among other efforts to ameliorate the condition of the poor, has found it necessary to adopt the system of Industrial insurance in all its essentials as it has been carried on for many years by private companies in England and in the United States.*

I have called your attention to the fact that in this State (New Jersey) Industrial insurance has assumed proportions equaled in no other State, and I might have gone further and said that in the city of Newark there are whole sections and blocks of houses where from 60 per cent. to 95 per cent. of all the people are industrially insured. It is safe to say that of the entire child population in this city the preponderating majority are insured, yet during thirty years of active business operations there has never been a single case of alleged child-murder or neglect on account of insurance in this city. In this State as a whole the mortality rate of

* Assurance, the official gazette of the life insurance department of the Salvation Army, vol. III, p. 224, London, December, 1900.

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children is to-day less than half of what it was in 1879, when deaths were first systematically reported by the State. Before 1875 the death rate of Newark was 30 per 1,000 and the deaths of children under five formed 50.5 per cent. of the whole mortality. The death rate in 1905 was 17.5 per 1,000, and only about 31 per cent. were deaths of children under five. What is true of Newark is true, more or less, of every large city in New Jersey and in the United States.

In the thirty years since we have been in business many substitutes for Industrial insurance have been suggested and the field has always been open to any company which would offer a more attractive, cheaper, or otherwise more satisfactory plan. Time and again new propositions have been brought forward, but not one has been successful. These plans and suggestions have necessarily received our careful consideration. It has often been suggested that the premiums should be collected monthly, but the many companies which transact insurance on the monthly-payment plan have failed to reach even a fair proportion of the mass of the people. We adhere to the fundamental principle of Industrial insurance, which requires its adaptation to the needs and conditions of *the whole* wage-earning population. It is this which makes it a truly democratic institution; it is this which gives to it the character of a universal provident fund. Single-premium-payment insurance has been suggested, by which every premium would purchase a small, but specific, sum of insurance payable in the event of death. We have looked into this matter; it has been tried by some companies, but the people do not take to it—they simply do not seem to want it. It has also been suggested that we combine our form of insurance with a provision for a benefit in the case of sickness. We tried that experiment for several years when we commenced operations, and found it impossible to conduct the business with safety and security, so we abandoned it. The Prudential of England and other Industrial

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companies have tried sickness insurance and found it impossible. The British government considered the subject, but found this suggestion impracticable. It has also been suggested that we should issue policies for deferred annuities, payable in old age, say, after sixty. We have carefully considered this also, but find that the weekly-premium-payment system under present conditions seems to preclude the adoption of this suggestion as a practical solution. Industrial insurance is primarily insurance for a definite sum payable in the event of death, for the purpose of paying the cost of burial, cemetery plots, nursing, last illness, etc. Only as a secondary consideration does the element of possible investment enter into the proposition, or the laudable attempt to provide for the immediate support of surviving members of the family. *The average premium of ten cents a week cannot perform a miracle.* Yet even as the matter stands, we estimate that annually at least \$12,000,000 of the claim-payments of Industrial companies remain as a surplus or provision for the more pressing needs of surviving members of the family after the payment of burial and other incidental expenses. In other words, all of the proposed substitutes for Industrial insurance have in theory or in actual practice fallen short of *all* the requirements to which Industrial insurance primarily owes its world-wide success.

It has, for illustration, been suggested to us that we should allow a deduction to be made equal to the collector's commission in cases where Industrial policyholders prefer to pay the premiums at our local office. This plan has been tried by the London Prudential and found impracticable.* The business of Industrial insurance is one of vast detail, but simple in its general elements, and it is chiefly because of *uniformity* in method and of strict adherence to definite rules and regulations, admitting of no exceptions, that the enormous mass of necessary office transactions is

* History of the Prudential Assurance Company, London, p. 9.

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reduced to a working basis. If we were to allow exceptions to be made in matters of this kind, hopeless confusion would be the result, not only in the field, but also in our office accounts. For a week or a month the premiums would probably be paid at the office, for another week or month the demand would be for the collection of the premium from the house of the insured. Failure to make the premium-payment at the office would still require the services of an agent to call upon the insured, and thus, for practical purposes, instead of there being a saving in expense, the probability is that the expense would be increased. That was the condition in England, and it is reasonable to suppose that in the nature of the case the same would be true here.

Then, again, it has been proposed that the State should undertake this form of insurance. Several States are now making inquiry into the subject, and in Illinois a modified form of compulsory labor insurance is under consideration. New Zealand tried the experiment for a number of years, but abandoned the effort.* The British government has been urged to extend its post-office system by making letter-carriers insurance solicitors and collectors of weekly premiums, but it was made clear to the Committee of Inquiry in 1882 that if this were done the number of carriers would have to be largely increased and their chief duty, of letter delivery, would become subordinate to the secondary purpose of insurance.† This much, however, is clear, that Industrial insurance cannot be carried on without solicitors or collectors. The agent is the life of the business. The agent is indispensable, not only to secure the business, not only to

* For an extended discussion of government life insurance of New Zealand, see *Spectator*, New York insurance periodical, June 8 and 22, 1905.

† In 1908 a report was made by the Departmental Committee on the Encouragement of the Life Insurance System of the Post-office, in which there occurs the following significant statement (p. 5): "It is a matter of common knowledge that the budget of the wage-earning classes is calculated on a weekly basis, and it is essential to recognize this in any scheme which is to appeal to and be well received by such classes; and we think that it should be embodied in any plan for providing further insurance facilities. We are not prepared to suggest a house-to-house weekly collection of premiums such as is practised by the industrial insurance companies, as we recognize that any such arrangement would very greatly increase the expenses of the Post-office system; but we think that an approximate equivalent to the weekly collection of premiums might be provided by other means, possibly by a development of the stamp-slip system at present in use in connection with savings bank accounts."

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collect the premiums, but to keep the insurance in force. His interest in the continuance of the insurance in force is as real as the interests of the policyholders and the company. Government with all its power cannot transact Industrial insurance except by adopting the methods of the companies. It could offer no greater security; it would probably operate at a greater expense. The British government rates in the post-office system are not lower than the rates of the British Prudential. They are even higher than the non-participating rates of the American Prudential. The rates of the Industrial branch of the New Zealand Government Life Insurance Department were not essentially different from those of private companies. The latter have been successful where the former has failed.*

The only alternative is compulsion. The German government has worked out an elaborate scheme of workingmen's insurance, but there is nothing in this plan which can possibly be suggested as a solution of American economic problems unless we are also willing to introduce radical changes in the theory and form of our government. *Compulsion* is the foundation principle of the German system and insurance is only a catchword. The German system is *not* insurance, but, as has truly been said, it is a modified method of employers' liability on the one hand, and an ingenious method of poor-law administration on the other. The foundation principle is that the industry in which a man is employed should stand a large share of the burden—ostensibly the employer chiefly, but finally the expense, or a large share of it, falls upon wages. The basis for the workman's contribution is not the rate of mortality among the class to which he belongs, but his annual rate of compensation, or wages. The employer pays a part, the employee contributes, and the state makes up the rest. It is an admirable system in theory, no doubt; it has its attraction for social reformers;

* Government Life Insurance in New Zealand, *Spectator*, June 22, 1905.

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it is, apparently, adapted to the paternal state; but I am confident, after a careful study of the matter, that it is inapplicable to the needs and requirements of a free people in a free democracy like the American Republic.

The impracticable character of these suggestions of substitutes for Industrial insurance is self-evident. Insurance as a social institution is the result of many years of gradual development, and changes and improvements in the system are the outcome of experience. The Industrial contract, or policy, of to-day is a very different document from the policy issued in 1875. The Industrial policy now provides for paid-up insurance after three years, for additional benefits after five years, for cash dividends after fifteen years, and for cash surrender values after twenty years. There are no restrictions as to hazardous occupations, residence, and death from suicide, consumption, heart disease, etc. Improvements in the policy contract have been made retroactive to existing policyholders. Corresponding improvements have been made in every branch of the business. The foundation principle remains the same, but the practice has been modified in the light of *experience*. That one word "experience" comprehends all. Year after year we have learned valuable lessons; year after year we have incorporated these lessons into our practice. The record of these improvements is a part of our history; in a measure it is the history of Industrial insurance.

It is a record of which we are proud. In no other country is Industrial insurance more popular than in this, unless it is in England, where the business has been in existence for nearly twice the period of time. In no other country is Ordinary insurance among Industrial policyholders as popular and as widely in use. The people who are our patrons and who have been premium-payers for many years *know* and clearly comprehend its value. The hundreds of thousands of beneficiaries to whom claims have been paid

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are satisfied; the millions of policyholders who have received additional benefits, cash dividends, or cash surrender values, are equally satisfied and make no complaint. Nor could it well be otherwise. The contract of Industrial insurance is plain. It is easily understood. A child can add up its cost; a child can figure out that the few who live to extreme old age must pay in more than they can expect to receive in return, but the people know equally well that while less than is paid in is received in return in a comparatively few cases, more than is paid in in premiums is received in return by the many who die prematurely, from accident or disease.

I cannot better illustrate this point than by referring to a few of the more striking instances which emphasize the value of Industrial insurance in the case of exceptional accidents or national calamities. The loss of the battleship *Maine*, on February 14, 1898, involved twenty-one Industrial policies in The Prudential. Only \$628 had been paid in premiums, while \$3,529 was paid in claims. The only death in the naval battle at Santiago, on July 3, 1898, was that of a policyholder of The Prudential, who had paid \$86.70 upon two Industrial policies and whose heirs received \$353.26 in payment of the claim. In the Windsor Hotel fire in New York we had a loss under an Industrial policy upon which only thirty cents had been paid in premiums and under which we paid \$61.50 as a partial benefit—enough to pay the funeral expenses. In a tenement-house fire in Newark, N. J., on March 12, 1900, several persons died who were Industrial policyholders of The Prudential, who had paid \$13.75 in aggregate premiums, and whose heirs or beneficiaries received \$192.75 in settlement of the claims. In the great fire of the docks of the North German Lloyd, at Hoboken, June 30, 1900, seven persons were killed who were insured with us under nine Industrial policies. Only \$325 had been paid in premiums and to the heirs or beneficiaries we paid \$1,006.56 in return. Among those killed in the Iroquois Theater disaster, twenty-

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three were Industrial policyholders of The Prudential, who had paid \$515 in premiums, in return for which we paid \$3,423 to the beneficiaries. I could give hundreds of similar illustrations, but I conclude with a reference to the Slocum disaster, in which 212 persons perished who were insured with The Prudential under 336 policies. We had received \$8,331 in premiums, and we paid in claims \$38,147.

We paid promptly in these cases, as, I need hardly say, we always do. Claims are paid without undue delay, but every safeguard is employed to protect the interests of the Company against possible imposition and fraud. An Industrial policy is a promise to pay a sum certain in the event of death—that is all there is to it—and the people know and understand. In all these many years we have had very little litigation. Search, if you please, the books which treat of the law of insurance; look up the list of cases referred to, and out of the thousands of cases an extremely small number are references to The Prudential. Vance* on the Law of Life Insurance, the latest work on the subject, cites about three thousand cases, of which only two are decisions affecting The Prudential. We avoid needless litigation, by policies which are free from ambiguities and vexatious restrictions, but we safeguard our interests by making use of every proper means, by intelligent medical examination and careful inspection, to secure a sound and healthy class of risks from the outset.

From time to time we have made favorable changes in our policy conditions or in our premium rates, and in all cases we have made such changes retroactive, so as to apply to *all* policyholders, irrespective of the duration of insurance. The voluntary concessions to Industrial policyholders which we have made so far have cost The Prudential about \$6,500,000.† These concessions affect millions of contracts

* Handbook of the Law of Insurance, by William Reynolds Vance, St. Paul, Minn., 1904.

† The voluntary concessions to Industrial policyholders of The Prudential by December 31, 1908, had cost over \$11,486,000.

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which did not originally provide for a participation in the benefits conferred. Of the claims paid last year, thirty-one per cent. were settled upon a more favorable basis than the original contract called for. To-day every policy is a profit-sharing contract—conditional, it is true, in some respects, but as truly profit-sharing in all essentials as an Ordinary policy. Save for the higher cost, due to the high mortality of the class insured and the expense of special accommodations involved in the collection of the weekly premiums, there is no material difference between an Industrial and an Ordinary policy contract.

Agents are as necessary to the business of life insurance as fuel is to the locomotive. Without agents there would be no insurance, or so little of it that it would be strictly a class institution for the exceptionally intelligent or thrifty. Compulsion alone could overcome the difficulty. Compulsion in the United States is out of the question. That voluntary thrift, as represented by insurance, requires the services of agents, is made clear by the experience of non-agency companies in England. There are at least three such companies, of which the London Equitable is the oldest, having been established in 1762. Other companies of this class are the London Life, established in 1806, and the London Metropolitan, established in 1835. These companies boast of their low expense rate; they appeal to the public through advertising and in various other ways, but their business is so insignificant that they are strictly class institutions and of small economic value to the nation. In 1904, for illustration, the London Equitable wrote only 258 new policies, the London Life wrote 252, and the London Metropolitan wrote 174. In contrast, the London Prudential, employing agents at a reasonable compensation, wrote 71,874 new Ordinary policies and (approximately) 675,000 new Industrial policies during 1905, and the American Prudential wrote 96,355 new Ordinary policies and 1,576,215 new Industrial policies.

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Thus the agency companies do the business, insure the people, and bring the blessings of life insurance to thousands and millions of afflicted homes. The non-agency companies may in some cases offer slightly better individual advantages, but these advantages would disappear at once if the companies made a deliberate effort to secure a larger share of new business. The differences in the premium charges of agency and non-agency companies are quite unimportant, however, when a fair comparison is made of the non-participating rates, where every element of uncertainty in final cost has been eliminated. I find, for illustration, that the London Equitable, at age 30, would charge \$20.33 per \$1,000 of whole life insurance, against \$22.58 charged by the London Prudential and only \$19.77 charged by the American Prudential. The assumed advantages of life insurance without agents, therefore, do not materialize upon a more careful inquiry into the facts of actual conditions and experience.

The agency expense is a necessary and legitimate item in the management of a progressive life insurance company. The chief aim should be, of course, to keep the expense within reasonable limits. The Prudential has made strenuous efforts in this direction. Our expense rate has been normal and below that of many other companies, but time is necessary for a decided improvement. We have every reason to believe that in the not far distant future our expense rate in the Industrial branch will be reduced still further, as our business becomes more concentrated and as our agency force becomes better educated to the needs of the business and better adapted to the conditions which govern success. It is too early to say what the reduction may amount to, but we are confident that in time the Industrial business will be secured at a lower rate of expenditure. In the light of English experience during more than fifty years, we have made astonishing progress. We have perfected

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many details of our office and agency administration, but we have been compelled to go slowly in some directions, since we could not take the risk of disturbing our entire organization. With painstaking care we have inquired into the facts of every problem and with patience we have traced the lesson of our experience out of the immense body of accumulated data, which to us are more safe and satisfactory guides to the future than the notions or schemes of individuals who expect a ten-cent weekly premium to perform a miracle.

Industrial insurance is life insurance at retail, and for this reason, in part at least, the cost is higher than in Ordinary life insurance, where the premiums are payable quarterly, semi-annually, or annually, and require to be sent to the office of the company. Just as retail prices are higher than wholesale prices, so the cost of a commodity is enhanced by additional privileges of accommodation such as are represented in the collection of the weekly premium from the houses of the insured. This accommodation is of great value and necessarily requires to be paid for. Wage-earners, for self-evident reasons, conform their scale of living and family expenditures to the weekly principle because the income is also upon that basis. It is a convenience to the workingman to have the insurance collector call at his house for the premiums, and for that convenience he is willing to pay. Efforts which have been made to dispense with collectors have invariably proved a failure. Considering the accommodation, in addition to the insurance protection, Industrial insurance is, without question, one of the cheapest of commodities. It would be impossible to give as much for the money—as much convenience and accommodation to circumstances on the one hand, and as much life insurance protection on the other—were it not that the business is one of millions of small transactions and concentrated in comparatively small areas. The fact of special accommo-

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dation in the collection of the premiums is one of the reasons why Industrial insurance is more expensive than life insurance on the Ordinary plan.

In a measure Industrial insurance is instalment insurance. No article can be sold on the part payment plan without an increase in the cost. The facts are so self-evident that they require no extended explanation. Every article sold on the instalment plan is more expensive than the same article sold for cash. A \$400 piano on the instalment plan can be had for cash for probably \$300, while the original cost is estimated to be only \$150. A sewing-machine which can be bought for cash for \$20 or \$25 will cost from \$45 to \$60 on the instalment plan. Coal bought by the bushel will cost \$9 or more a ton against \$6.75 or less a ton when bought in the regular way. Even in the case of a single-trip railway ticket the cost will be approximately 100 per cent. greater than the cost per trip of a 100-trip ticket. This is true of business generally and is the result of the expense of special accommodation and special risk, whether it be the work of a ticket agent making one hundred individual sales or of an Industrial insurance agent making at least fifty-two calls at the house of the insured each year. It is the *special accommodation* which enhances the cost, and I wish to be emphatic upon this point, that the increase in cost on this account is less in the case of Industrial insurance than in many similar commercial transactions where goods or articles are sold on credit or on the instalment plan.

No fair comparison can be made, therefore, of the premium charges for Industrial insurance and those of Ordinary companies, because at the outset the conditions are not similar. Not only is the special accommodation in the one wanting in the other, but, what is of even greater importance, the class of people insured under Industrial policies, primarily wage-earners, are employed in industries more

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or less subject to a higher accident, sickness, or mortality rate than the class insured under Ordinary policies. Upon the basis of our Industrial experience we know that the mortality rate of adult Industrial policyholders is not far from being double the rate prevailing among Ordinary policyholders. The reason for this higher mortality is readily ascertained upon careful inquiry into the facts. It is in part due to the conditions of life, occupation, environment, and various other elements which determine the duration of human existence. The more favorable mortality of Ordinary policyholders is, in a large majority of cases, the result of a more careful medical selection than would be possible in the transaction of the business of Industrial insurance. A very considerable proportion of those who are policyholders in Industrial companies would not be accepted by Ordinary life companies, because of nativity, occupation, residence, etc. In other words, in its final analysis, the problem is one of safe insurance on the Industrial plan, applicable to the mass of the population, and of reasonable cost, or *no insurance at all*.

But it is argued that of every one hundred dollars received in premiums we pay but a comparatively small proportion—say 33 per cent.—in claims, dividends, surrender values, etc. This statement is not sustained by the recorded facts of the business. In return for every one hundred dollars received in premiums, plus the interest accumulation and gain from other sources, we return in due course of time the exact equivalent to our policyholders, in strict accordance with the policy agreement. To every policyholder we pay the full amount of his policy or whatever there may be due, and we have never on the one hand made an increase in our premium charges nor on the other made a deduction of a single dollar from the face value of a policy not warranted by the contract itself. To one man we may pay thirty dollars after having received only fifty cents in weekly premiums, while to another we

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may pay eighty dollars after having received as much as that amount in premiums. The one had insured in early life, with the prospect of having to pay for many years; the other insured near the age of sixty or seventy, with the prospect of, at most, having to pay for a comparatively short period of time. It is an inherent absurdity to take an individual case and reason therefrom in regard to a business which is entirely one of averages and which exists solely because of this very fact. It is the principle of association which lies at the root of all insurance and by which the many contribute to a common fund so that the least fortunate, who die early, may enjoy the blessings of life insurance protection for the family, in part without doubt at the expense of those more fortunate who survive to old age. That is life insurance pure and simple; it is the same in Industrial as in Ordinary or in fraternal insurance, and in the nature of the case it must ever remain so. The value of insurance lies in the certainty that the amount specified in the policy will be paid in the event of death, whether death occurs early or after many years. Here, again, I may repeat that the people know and understand and it goes without saying that they are sufficiently intelligent and free to decide in matters of this kind—perhaps much more so than their ill-informed critics who would wantonly destroy this form of thrift without the power and ability to furnish a practical and better substitute.

One of the most important problems in Industrial insurance is the lapse rate. We have from the outset emphasized in every way possible the importance of policy continuance. As early as 1880, at least, and probably before, we issued special instructions to policyholders in arrears, pointing out the advantages of continuing, and emphasizing the policyholders' loss incurred in terminating the policy contract. In thousands of instructions and letters to our policyholders and the agency force we have emphasized the

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importance of attention to this point. Had we never lapsed a policy we would to-day have more policies in force than any other life insurance company in the world. Had we never lapsed a policy we would be the richest and most prosperous of all insurance corporations. But lapses are unavoidable—as unavoidable in Industrial as in Ordinary or in fraternal insurance. The element of waste is common to all industry, and our object, as is the case in all commercial enterprises, is to reduce waste to the lowest possible minimum. We are making progress from year to year. We have never had as low a lapse rate as we had during last year. But we expect to make still further improvements in this direction. It is a question of time, as in all other commercial problems. But our records prove that year after year, in one direction or another, improvements have been effected, important changes have been instituted or liberal concessions have been made, to which, we claim, is due the public faith in Industrial insurance as the safest, soundest method of life insurance for the plain people.

The importance of the lapse question, from the policyholders' point of view, however, is easily and generally exaggerated. Lapses, in the aggregate, are a serious loss to the company, but only a small loss, if any, to the insured. He has had his insurance for the time being, and the special accommodation in the collection of the premium. For weeks a solicitor may have spent a part of his time to write the policy; week after week he has called at least once for the premium due, all without result, since the policyholder has changed his mind and declines to take the policy. We allow four weeks of grace, after which the policy must be lapsed. Every such lapse means also a loss to the agent, whose special salary is based upon net increase. Of the lapses, 37 per cent. have been less than thirteen weeks in force. Of those which have been more than three years

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in force nearly 50 per cent. are revived. We make every reasonable effort to induce lapsed policyholders to revive their policies, even to the extent of not charging for the medical examination. We even go further and advance the money due, in the form of a lien, and we have \$26,000,000 of insurance in force under such liens, which are deducted from the amount payable in the event of death. We cannot do much more, for we are governed by the same inexorable laws of business which determine success in commercial affairs generally.

While lapses are a serious problem, every year finds the Company further advanced and more popular than the year before. In 1890 we had 1,228,332 Industrial policies in force, 3,908,622 in 1900, and on December 31, 1905, we had a total of 6,117,575 Industrial and 372,940 Ordinary policies on our books.* We direct attention to this fact because it is of transcending importance. It shows that a large number of our policyholders persist and are constant, feeling secure and satisfied that in the event of death not only will the sum specified in the policy be paid without question, but that in all probability a substantial addition will be made as the result of special benefits or privileges or because of our voluntary concessions. In some cases the result is not as satisfactory as we might wish. We emphasize in every way the importance of insurance in early life; we, however, cannot very well refuse to insure those who are of older ages, just because if they should live for many years they would pay in more than they would receive in return. We accept risks up to the age of 70 years next birthday, but we do this only to round out our system of family insurance. We would much prefer that all should insure early, but in the nature of the case this cannot be. Many who have been well-to-do in middle life, but who become poor in old age, find in an Industrial policy the only safeguard against a burial in the potter's

* On December 31, 1908, there were 7,258,704 Industrial and 473,035 Ordinary policies in force with The Prudential.

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field. We cannot as a matter of business policy or simple humanity refuse to issue policies to persons, say over 60, but, while hardships occur in isolated cases of extreme longevity, we have generally taken the facts into consideration, and as far as possible and advisable have dealt liberally with such exceptions upon their merits. In 1904 we introduced a new feature, which has proved of great value. All who attain to age 80 and who have paid premiums for ten years are relieved from further payment thereafter, paid-up insurance for the full amount of the policies being issued. In this and many other directions The Prudential has met the wishes and needs of policyholders, and their appreciation is made evident by the constant increase in our business and by the infrequency of serious complaint.*

I have gone into these matters at some length because of my desire to explain fully and clearly the practice of the Company in all essentials and in simple justice to its millions of policyholders, who are representative of all that is best in our national traits and character. We have always been ready and willing to give the utmost publicity to the facts of our business and we have even gone so far, at the request of the United States Government, as to exhibit the essential facts and features of Industrial insurance at international expositions, at Paris in 1900 and at St. Louis in 1904. The first-named exhibit received the high honor and recognition of a gold medal, while to the last the international jury awarded the "grand prize," the highest honor ever conferred upon an insurance company in this or any other country. In our exhibits we set forth for the information of all who might be interested every essential of the business, concluding with data illustrating the intimate connection between Industrial

* In very recent years the Company has made several other changes of far-reaching importance. In the Industrial branch, beginning with the Industrial policies bearing the date of January 7, 1907, and thereafter, no further premiums are required after the insured has attained the age of seventy-five. The benefits or amounts of insurance at all the younger ages were substantially increased, and at certain ages they were doubled. The Industrial rates under these provisions are, however, non-participating. On July 1, 1909, the table of benefits was again increased and made to apply to all policies issued since January 1, 1907, and in force July 1, 1909.

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insurance and the general public welfare. We even went further than this, and at the close of the St. Louis Exposition, upon request, we presented a copy of the exhibit, consisting of 178 charts and diagrams, to Harvard University, where it has been placed in the Social Museum and is now readily accessible to their men of science and to students of social facts and forces. Our Paris exhibit was, upon request, presented to the Social Museum of that city.*

We have published an outline of our history in a volume which has been praised as a contribution of great value to American economic history, and we have from time to time given publicity to many important facts of our experience—I mention this simply to emphasize our willingness to give publicity to the real facts of the business and in every way to encourage intelligent study and research into the underlying principles and methods of Industrial insurance. Much further than this we cannot go, for we are simply a life insurance company, not a philanthropic organization to be guided by sentiment. We are a business concern, in which every factor receives the most painstaking consideration, for the purpose of producing the best possible results to our policyholders, in a field of open competition with other life insurance companies and with other methods of saving and investment.

After thirty years of effort there are now some six and a half million policies in force with The Prudential in this and many other States. We limit the field of our operations to the United States, believing that here the opportunities for growth and development are for the time sufficient, and better than in other lands.† We have established for ourselves a name which has become a household word in America, and with jealous care we consider everything that is likely to advance the interests of our policyholders and enable us

* Subsequent exhibits of The Prudential at the Jamestown Tercentennial Exposition and at the International Tuberculosis Congress were also honored by the highest possible awards.

† In response to an increasing demand, largely from Canadian policyholders in the United States, The Prudential in 1909 entered the Dominion of Canada, opening offices in all of the large cities.

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further to extend the principles of life insurance to the masses, until in time practically every American household shall be under the protection of an Industrial or Ordinary life insurance policy. We firmly believe that the true interests of the plain people are better advanced by sound life insurance than by any other method of saving or investment, and we are confident that history will sustain our position and do justice to the cause and the mission of Industrial insurance.

In conclusion, I would say that I welcome this or any other impartial legislative inquiry into the important subject of life insurance and the administration of life insurance companies, including The Prudential. We readily complied with every request of the New York State legislative committee in 1905, for data or verbal testimony, and we have done likewise in the case of the present investigation (1906). There is nothing whatever by way of testimony or data in the possession of the Company's officers or contained in our archives that you may not call for and that we shall not be pleased to furnish. We invite the most complete and exhaustive investigation, not only in justice to ourselves, but equally in justice to our policyholders. For thirty years we have managed the Company with but a single thought, and that has been to make The Prudential not only one of the greatest, but also one of the best life insurance companies in the world. We have been successful, and "The Prudential" has become in America synonymous with *honesty* and *strength*. We cannot urge you too strongly to make your investigation as exhaustive and complete as possible, so that public confidence in these useful institutions, which is now somewhat disturbed, may be fully restored. While we cordially welcome any impartial inquiry into our affairs, we have opposed, and we shall continue to oppose, the unworthy efforts of so-called reformers to cast discredit upon life insurance management and methods in this State. We do not

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propose to allow men actuated by selfish and unworthy motives wilfully and recklessly to destroy, or seriously to injure, a great and beneficent institution, which it has taken us thirty years to build up. But, for the legitimate object of any impartial, comprehensive, and qualified inquiry, we stand ready to meet any demands which you may make, furnish any facts which you may require, submit any record which you may wish to inspect, confident that after you have completed your work your views will coincide with those of our policyholders, that The Prudential has, from the outset to the present time, been managed with rare skill, with absolute integrity, and for the best interests of its millions of policyholders.

CHAPTER V

**A METHOD OF PROVIDING
WITH CERTAINTY
FOR DEPENDENT OLD AGE**

**PUBLISHED IN
THE AMERICAN UNDERWRITER
1908**

A METHOD
OF PROVIDING WITH CERTAINTY
FOR DEPENDENT OLD AGE



THE problem of dependent old age has for many years attracted the earnest attention of statesmen, economists, and others seriously interested in questions of social reform. Sanitary and medical science combine to lengthen human life and to enlarge the proportion of those who live beyond the age of sixty, but the problem of self-support in old age is correspondingly increased by such a prolonging of human existence, and the economic results may become very serious during long periods of commercial depression and industrial distress. The problem is naturally more acute in countries which suffer from the burdens of over-population and from the cost of former wars and heavy present military expenditures, combined with natural economic disadvantages and artificial trade restrictions. As a proposed solution of the problem of poverty and dependence in old age, so-called state pension schemes have of recent years been introduced in Germany, Austria, and a number of other countries. The most important movements in this direction are the universal old-age pension system of New Zealand and the non-contributory, but qualified, pension plan recently introduced in England.

While proposals have been made to introduce a system of non-contributory state pensions in old age in Massachusetts and some other States, our satisfactory economic condition precludes the serious consideration of such propositions for many years to come. It is advisable, however, to point out the serious economic fallacy which underlies every proposition for a non-contributory old-age pension

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system, for, while the political expediency of such a scheme may perhaps be defended, its economic justification is entirely out of the question. What those in favor of such a system are pleased to call a "pension" is, in fact and in truth, only poor relief disguised in its most insidious form, because most likely to deceive even those whose sturdy sense of personal independence would otherwise revolt against the acceptance of a clear gift of public funds raised chiefly by the taxation of corporations and the well-to-do. To admit, however, that state aid or support in old age for the large majority of wage-earners and others of limited means is in fact a pressing necessity is to concede that the social and economic development of the nation has been in the wrong direction, that the education in thrift has been defective, and that the virtues of intelligent self-denial and self-sacrifice have been replaced by considerations of selfish indulgence and indifference to the welfare of others. Even a casual consideration of the facts of our social progress, as made evident by the prevailing rate of wages, hours of labor, improved sanitary conditions, home ownership, savings accumulations, and insurance, plainly contradicts the occasional assertion that there is any real necessity for state aid in the form of old-age pensions for the support of widows and orphans on the one hand and of the aged, incapacitated and infirm on the other.*

Universal poor relief in old age, disguised as a state pension, is certain to undermine the moral fiber and in particular the thrift function of the entire nation, and is bound to produce in course of time the most disastrous results. The American aim and ideal is for the highest possible degree of economic independence, and such independence throughout life, particularly in old age, can only be gained by rational education in family expenditures, savings, and insurance, and by a decidedly higher degree of industrial efficiency

* See *Old Age Pensions* by the Rev. Edward Everett Hale, Boston, n. d. (1907?).

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of the workers of the nation. The only permanent solution of the problem of poverty is through the development of the virtues of self-reliance, forethought, and thrift, and no social institution offers more substantial aid in this effort than life insurance, in any one of its many and varied forms, successfully and practically adapted to the needs of the people.

Notwithstanding the progress which life insurance has made, there remain vast unrealized possibilities for effecting, through the life insurance principle, a permanent and general solution of the problem of dependent old age, and the most important step in this direction is the development of the *monthly income* policy, to which I wish to draw attention in some detail, to emphasize its social and economic value as a practical and most desirable solution of the problem of needless poverty.

The economic importance of life insurance as a provident institution is recognized by all who have given the subject intelligent consideration. Life insurance, it is hardly necessary to point out, has immeasurably aided in the moral and material progress of the nation, and during 1907 \$204,453,191 * was disbursed by legal reserve companies in the form of claim payments, matured endowments and annuities. In addition, large sums were disbursed by fraternal benefit and mutual aid societies. Only the beginning, however, has been made, and the greatest development of life insurance as a universal provident institution is for the future, when a large proportion of the benefits as they become due will be paid out in monthly instalments. By this plan provision can be made with absolute certainty to secure the objects of insurance protection. At present, unfortunately, it is too often the case that large sums paid out at death to beneficiaries under life insurance policies are in part or in their entirety wasted or lost because of serious mistakes in the management of the invested funds. It

* Insurance Year Book (Spectator Company, N. Y.), 1908, p. 767.

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is, unfortunately, a fact of everyday experience that the numerous and bewildering schemes and plans by which the inexperienced or ignorant are induced to invest their savings in speculative or other ill-advised enterprises continue to flourish to the great injury of the public. The monthly income policy safeguards against the loss of the principal and provides with *certainty* an income, for a period of at least twenty years, which cannot be encumbered, depreciated, or wasted in speculative or otherwise undesirable investments.

The monthly income policy emphasizes what it is of the utmost importance for the insured to realize, and that is the specific value of the insurance protection provided for surviving members of the family or for self-protection in old age. Such a policy in specific terms leaves no doubt, nor is there any chance of error in over-estimating the value of the benefits ultimately to be derived from the investment. The amounts payable every month are specifically stated in the policy and are fully and clearly understood by the insured. A large majority of those whose incomes are on a weekly or monthly basis have but a very limited conception of the actual income-producing value of even comparatively large amounts. The incomes derived from such investments are often precarious, fluctuating in amount, and under given circumstances they may be reduced to a minimum or be entirely lost. No such disaster can overtake the investments in a monthly income policy, which combines absolute certainty with the specific guarantee of a definite sum payable to the beneficiary on the first of every month. To the poor, the prosperous, and the well-to-do alike, the monthly income policy furnishes an ideal form of family protection, or self-support in old age, superior to any other present method of savings, investment, or insurance. For it requires no extended argument to prove that a definite understanding, not only

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of the policy terms, but of the ultimate results of life insurance protection, is of the utmost importance to the beneficiaries under such policies.

A minimum of subsistence in conformity to the American standard of life requires at least an annual income of \$360, which it is practically impossible to provide by savings alone in the large majority of cases, but which can be provided through life insurance by a reasonable exercise of frugality, self-sacrifice and rational economy. One-third of this amount can easily be provided out of so small an income as \$10 a week, or \$520 per annum, and, of course, the lower the age and the larger the income the less difficult the problem of how to provide adequately for dependent survivors or for self-support in old age.

The proceeds of a thousand-dollar policy at a minimum expenditure of \$360 per annum are used up in three years for necessary family needs. This fact is rarely, however, brought clearly home to the uninsured or to the under-insured, and many are content with one or two thousand dollars of insurance protection when a better realization of the productive value of these amounts would induce more economical habits and lead to a corresponding increase in the premium payments for life insurance protection. This truth, which is an axiom in life insurance experience, requires to be more emphatically brought home to the many who are under-insured, and they should be made to realize that it requires at least \$1,756 of insurance protection to provide a monthly income of \$10 for a period of twenty years. When this important fact is more generally understood the common error of placing too much reliance upon a thousand-dollar policy as sufficient protection will be replaced by more adequate amounts of insurance for the benefit of surviving members of the family or for the needs of self-support in dependent old age.

These observations and conclusions set forth and define

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the first principles which should govern in any general considerations of life insurance for the purpose of family and self-protection. Even to provide a minimum income of \$10 a month for the needs of dependent survivors for a period of twenty years requires a not inconsiderable degree of self-denial and economical management of the family income on the part of those who live on small salaries or average wages. At age 30 the cost of a policy providing \$10 a month for a period of twenty years on the whole life non-participating plan is \$33.47, which is equivalent to 5.58 per cent. of an income of \$600 per annum, and to only 4.65 per cent. of an income of \$720 per annum. To emphasize how very large is the group of those who receive wages or salaries of even less than \$720 per annum, reference may be made to the Federal civil service, in which 36 per cent. of the male employees receive incomes of less than this amount, while of male wage-earners generally only 20.7 per cent. receive as much as \$15 a week or more. To those who aim to make at least a minimum provision for family needs in the event of death, it should not be impossible, with rational economy, to provide by insurance out of an income of \$600 to \$720 per annum a guaranteed income of \$15 a month, payable for a period of twenty years. Such a provision may, on first consideration, appear small, but it will provide with certainty for the specific needs of the family, and its great economic value lies in the fact that it is a *definite amount payable at definite intervals and with certainty for a definite period of time*, that it cannot be wasted or lost, encumbered or depreciated, but remains as safe and secure as the income derived from government bonds.

The cost of such insurance protection varies necessarily with the age of the insured and with the plan selected as best adapted to personal needs. The following table gives specimen premium rates of monthly income policies on the non-participating plan, providing \$10 a month for twenty years.

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SPECIMEN PREMIUM RATES OF MONTHLY INCOME POLICIES (NON-PARTICIPATING)

PROVIDING \$10 A MONTH FOR TWENTY YEARS

Age	Whole Life	20-Pay't Life	20-Year End't	30-Year End't
20	\$26.24	\$39.64	\$73.28	\$46.04
25	29.41	43.13	73.90	46.92
30	33.47	47.39	74.77	48.31
35	38.76	52.62	76.16	50.60
40	45.76	59.16	78.46	54.41
45	55.20	67.62	82.46	60.76
50	68.11	78.91	89.35	71.05
55	85.91	94.38	100.87	
60	110.64	116.24	119.55	

At the age of 20 the cost is \$26.24 on the whole life plan, \$39.64 on the 20-payment life plan, and \$46.04 on the 30-year endowment plan. The rates naturally increase with increasing age, but, as emphasizing one very desirable form of self-protection in old age, attention may be called to the 30-year endowment rate at age 30, which, according to the table, is only \$48.31, or less than \$1 a week. Even an income of but \$10 a week, with reasonable economy, ought to permit of a saving of less than one-tenth to provide a definite income to the insured after the age of 60, when the active working period of life has practically come to an end. By this payment of less than \$1 a week it lies within the power of practically every American to provide at least the minimum of subsistence with certainty for his own future, or a sum equal to the probable maximum which any government pension scheme could ever expect to provide.

In all of the propositions which have been made for government pensions few have gone further than to suggest a maximum amount of \$2.50 a week. Considering, however, that a very large proportion of wage-earners and those in receipt of

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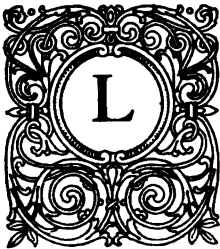
salaries or other incomes receive more than \$520 per annum, and that in fact a very large proportion outside of the wage-earning group receive over \$1,200 per annum, it requires no extended calculations to prove that the cost of adequate provision for old age through life insurance on the monthly income plan is entirely within the means of all who really wish to maintain their self-respect by providing for self-support at their own cost and out of their own means. At age 30 the 30-year endowment premium of \$48.31 is but 4.03 per cent. of an annual income of \$1,200, which, without difficulty, in the case of normal families at least, could be economically managed to allow of a provision for an income of \$25 a month at a cost of \$120.77, or 10.06 per cent. of the income. In the case of an income of \$2,500 the income to be provided should not be less than \$25 a month, and this could easily be increased to \$50 a month by economical and prudent management of the family resources. These are the possibilities of self-protection in old age and self-support for dependent survivors of the family which the monthly income policy offers, and which, no doubt, will enormously enhance the social and individual value of insurance protection and make, within a measurable period of time, legal-reserve life insurance on the non-participating plan, in truth and in fact, a universal provident institution throughout the land.

CHAPTER VI

**THE PROBLEM OF THE
UNINSURED**

**PUBLISHED IN
THE NEW YORK COMMERCIAL
1908**

THE PROBLEM OF THE UNINSURED

 LIFE insurance in the United States is to-day an economic necessity, and the periodical premium payments have become fixed items of family expenditure. Life insurance is no longer a novelty or a class institution, but a universal method of providing with certainty for the needs of others and for self-support in old age. While very commendable progress has been made in the direction of popularizing legal-reserve life insurance with all of the widely different elements of the population, much remains to be done to make life insurance in fact a universal provident institution.

On December 31, 1907, there were approximately 6,100,000 Ordinary policies in force in the United States, insuring over eleven and a half billion dollars of legal-reserve insurance protection. On the same date the number of Industrial policies exceeded 18,700,000, insuring two and a half billion dollars of legal-reserve Industrial insurance protection.* Panics, depressions, and hard times have had no perceptible unfavorable effect upon the recent growth of the business, for life insurance premium payments are, in the majority of instances, small periodical deductions from the luxuries and not from the real necessities of life. By rational economy it is easily within the means of all above the pauper class to secure the home and the family, to maintain self-respect, and to provide for old age in a modest way through legal-reserve life insurance with sound and solvent companies in every section of the country from Alaska to the Everglades.

The number of policies in force is, of necessity, much larger than the number of persons insured. Quite a considerable proportion of life insurance policyholders are

* By December 31, 1908, the number of Industrial policies in force had increased to over 19,687,000, and the amount of Industrial insurance to nearly \$2,669,000,000.

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insured under more than one policy, and with more than one company, but it would seem safe and conservative to assume that the 6,100,000 existing Ordinary policies (December 31, 1907) represent approximately 4,500,000 insured persons of the adult American population. It is equally safe to assume that the 18,700,000 existing Industrial policies (December 31, 1907) represent approximately 12,500,000 insured persons holding Industrial policies, but quite a large number of these policyholders are insured on both the Ordinary and Industrial plans. To arrive at an approximate estimate of the number of persons insured with legal-reserve life insurance companies, it is therefore necessary to make a deduction on this account, and 500,000 will probably approximately represent the number who hold both Industrial and Ordinary policies.

After making these deductions there remains a net total of about 16,500,000 *persons* insured in legal-reserve life insurance companies in the United States at the present time, out of an aggregate population of over 86,000,000, according to the official estimate for 1907. This estimate of the insured population is, of course, exclusive of the large number of persons who hold membership certificates in fraternal, assessment and other so-called beneficial insurance associations.

The aggregates of American life insurance are truly imposing, but they obscure the more serious problem, and that is the mass of the uninsured. After deducting the 16,500,000 of insured population from the total population, there remains the enormous aggregate of nearly 70,000,000 who are at present not insured with legal-reserve life insurance companies. Since the legal-reserve plan is the only method of life insurance which has generations of human experience to sustain it, and which is based upon the scientific principles of the law of mortality and sound theories of finance, all other forms of life insurance are more or less in the nature

The Problem of the Uninsured

of speculation and are otherwise unsatisfactory attempts to substitute unsound for sound and solvent methods of insurance.

Progress, however, is being made from year to year, and the ratio of sound life insurance to population is continually increasing. In 1898, or ten years ago, the ratio of Ordinary policies was 3.3 to every 100 inhabitants, which by the end of 1907 had risen to 7.1. There had been in the meantime, an actual increase of 3,650,000 in the number of Ordinary policies in force, equivalent to 151 per cent. While the normal annual rate of progress is not as rapid as the best interests of the population at large seem to demand, it is conservative and in conformity with the best practices of the business. But for the disturbed conditions affecting life insurance progress during the past few years, the actual rate of increase during the last decade would, however, have been much greater. The normal yearly addition to the number of Ordinary policies in force in the United States is about 500,000, but during the last three years the average annual increase has been only about 200,000 policies. By degrees, however, the ground lost is being recovered, for public confidence in life insurance, as such, was never seriously disturbed.

I cannot better emphasize this statement than by directing attention to the progress made in other fields of financial and commercial effort during the same period. While during the decade ended with 1907 the increase in the number of Ordinary policies was, as stated, 151 per cent., the increase in the amount of money in circulation in the United States was only 50 per cent., in bank clearings 139 per cent., in the amount of loans and discounts by national banks 11 per cent., in the amount on deposit in savings banks 72 per cent., in the amount on deposit in State banks 61 per cent., in the Government revenue 64 per cent., in the value of imports 133 per cent., and, finally, in the value of exports 53 per cent.

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This statistical evidence is conclusive proof that the progress of life insurance during the last decade has been at a more rapid rate than the progress of the nation in other important directions, and there is every reason to believe that the development of Ordinary legal-reserve life insurance in this country, in the immediate future, will far exceed the progress of the business during the recent past.

The advance of Industrial insurance in the United States during the same period has been actually much greater, as measured by mere numbers, but relatively less in proportion to population, on account of the very much larger number of policies already in existence. The ratio of Industrial policies to population has increased from 12 to every 100 inhabitants in 1898 to 22 in 1907. The actual increase in the number of Industrial policies during the decade has been nearly 10,000,000, while the relative increase has been 112 per cent. To fully grasp the significance of this statement, the analysis, however, must be extended to include the local development of the business in the principal manufacturing States. In New Jersey, for illustration, where the business had its beginning only as far back as 1875, the ratio of Industrial policies to population is 81 to every 100, against 22 for the country as a whole. For New York the corresponding ratio is 49, and for Ohio 26. The results which have been attained in New Jersey measure the possibilities of the growth and development of the business in other industrial States, for to-day active efforts are being made to develop Industrial insurance in practically every city of the United States, from Maine to California. Considering that more than one-third of the inhabitants of the country live in cities, the outlook for the development of Industrial insurance is, indeed, most encouraging.

To emphasize somewhat more in detail the possibilities of the future of Ordinary legal-reserve life insurance in the United States, attention may be directed to the

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wonderful progress which has been made by life insurance in New Zealand, where the ratio of Ordinary policies to population is 13 to every 100 inhabitants, against only 7 for the United States. There are no material differences in economic conditions to account for this much more rapid degree of progress in the colony of New Zealand, but the results clearly indicate the possibilities of the development of Ordinary life insurance in the United States. If at the present time (1907) our proportion of Ordinary policies to population were the same as the existing proportion of this business in New Zealand, the actual number of Ordinary policies in the United States would be nearly 12,000,000, instead of only a trifle over 6,000,000.

One probable reason why there has not been as much progress in American Ordinary life insurance in the past as the natural resources, opportunities, and material well-being of the United States would warrant is that until within a comparatively short period of years no serious effort had been made to reach the many millions of our industrial or wage-earning population. Through the persistent efforts of Industrial agents, however, the mass of the people are gradually being educated in the principles and practice of sound life insurance. To an ever-increasing extent, Ordinary policies are being written by Industrial agents among an element who in the past were practically let alone by exclusively Ordinary companies and forced to rely upon the less satisfactory and less secure methods of fraternal, or assessment, insurance. Under conditions of peace and plenty this factor will have a most important and increasing effect in enlarging the field of legal-reserve Ordinary life insurance, chiefly among an element not reached by the agents or solicitors of exclusively Ordinary companies.*

Another important factor which will go far toward increasing the opportunities for developing legal-reserve

* On December 31, 1908, there were 1,295,942 Ordinary policies in force with the Industrial life insurance companies of the United States, representing \$1,317,887,524 of insurance.

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Ordinary life insurance is the increasing accessibility of the farming regions of the country. Within the last decade an immense interurban electric railway system has been developed which has brought a larger area within easy reach of the solicitor than was accessible in the past. Good roads are being extended in every direction, and the automobile, among other methods of conveyance, is being used to bring the insurance solicitor to the most remote farm and fire-side. The rural free delivery system has also become a substantial aid, while the large increase in railway mileage has opened up new farming regions, formerly very difficult of convenient and economical access. All these factors combined tend strongly to promote the more rapid future development of life insurance business throughout the country. But there is still another important factor demanding consideration, and that is the much higher prices realized for farm products of all kinds, which enable the agricultural population of the present day to make larger use of life insurance protection than was formerly possible.

As further emphasizing the possibilities of the progress of Industrial insurance in the future, attention may be directed to the success which has been achieved in England, where, however, Industrial insurance has been in existence for some twenty years longer than in the United States. In the United Kingdom, with a population of 44,000,000, there are now in force some 25,600,000 Industrial policies, or 58 to every 100 inhabitants.* If the same ratio obtained in the United States, there would now be in force more than 50,000,000 Industrial policies instead of the 18,600,000 actually in existence. We might, therefore, more than double the existing amount of Industrial insurance in the United States without equaling the attained ratio of business to population in a country with social and economic conditions far from being as favorable as in the United States.

* In addition there are in force some 8,000,000 policies on the weekly plan with collecting friendly societies.

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Finally, it is necessary to take into account the normal increase of the American population, which is about 1,600,000 per annum, as the result of an excess of births over deaths and of an excess of immigration over emigration. If the American life insurance companies did nothing more than to take care of this normal increase in the population, and if their actual increase in business only kept pace with the increase in population, they would indeed make a most commendable record. Actually we add only about 200,000 Ordinary policies per annum under existing conditions, and less than 1,000,000 Industrial policies, so that we are not making the progress in business results which the increase in population would warrant. Under the economic conditions which normally prevail in the United States favoring the rapid progress and material well-being of the foreign-born, this element of the population, which alone constitutes a large field, is most in need of rational insurance education on the one hand, and of sound insurance protection on the other.

Life insurance, as an economic necessity, represents an immense force making for social betterment, which cannot be hindered by occasional disturbances in business, or by financial panics and industrial depressions. Life insurance, constituting as it does one of the absolute essentials of our social and material progress, is a force which must continue to increase with the progress of the nation in material wealth and with its advance in civilization. We hear much of the alleged need of state pensions in old age, and claims are made for the necessity of state insurance, some even going so far as to suggest a compulsory system, such as is in operation in Germany and Austria; but contemplating the wonderful results which private initiative has achieved in the United States in this field of voluntary thrift, my mind does not recall a similar achievement in other fields of commerce, finance or philanthropy, nor can I conceive of a social

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institution more deserving of public favor and public support than legal-reserve life insurance as it has been developed within the last generation in the United States. The evidence is overwhelming that the future of American life insurance is full of great possibilities and that the results attained in the past will be insignificant compared with the still more wonderful achievements of the time to come.

CHAPTER VII

LIFE INSURANCE AS A CAREER

**PUBLISHED IN
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1903**

LIFE INSURANCE AS A CAREER



LIFE insurance, in the words of DeMorgan, "though based upon self-interest, is the most enlightened and benevolent form which the projects of self-interest ever took. Stripped of its technical terms and its commercial associations, it may be presented in a point of view which will give it strong moral claims to notice." In its origin a British institution, life insurance has developed most rapidly and on the largest scale in the United States. Practically unknown in this country a hundred years ago, and of insignificant proportions even fifty years later, the last half century and, in particular, the last decade record what must be conceded to be the most marvelous business success of this or any age.

While there are many forms of insurance protection, legal-reserve life insurance alone offers the absolute assurance that the obligations incurred and the promises made will be met. Of legal-reserve companies there are about eighty in active operation, with about four million Ordinary and about thirteen and a half million Industrial policies in force. The accumulated assets of these companies exceed \$2,000,000,000, and the annual payments to policyholders, \$200,000,000. The annual income is more than \$500,000,000, while the surplus to policyholders exceeds \$300,000,000.*

Life insurance has been defined as a social device for making accumulations for meeting uncertain loss of capital, which is carried out through the transfer of the risks of many to one person, or to a group of persons, in clear recognition of the principle that "the aggregate danger is less than the sum of individual dangers, for the reason that it is more

* On December 31, 1908, there were about 171 legal-reserve companies, with over six million Ordinary and nearly twenty million Industrial policies in force. The accumulated assets of these companies were then nearly \$3,400,000,000 and the annual payments to policyholders were about \$336,000,000. The annual income was nearly \$704,000,000, and the surplus to policyholders a little more than \$474,000,000.

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certain, and that uncertainty of itself is an element of danger.”* Primarily devised to provide for the support of widows and orphans, the practice has been developed and enlarged so as to include the secure investment of surplus earnings, in conjunction with the insurance of a sum payable at death.

In virtue of these principles the system of legal-reserve life insurance has been developed to an extraordinary extent, but, however widely diffused, it is safe to state, with a reasonably thorough knowledge of the facts, that the real development of the business is of the future rather than of the present, and that the actual progress which has been made during the last thirty years will be in contrast, rather than in comparison, with the far greater progress and further extension of the business during the next thirty years.

This, then, appears on its face to be a reasonable proposition, that for a business career many young men would choose well and wisely to attach themselves to what already is one of the most important commercial enterprises of the age. Subject to no violent fluctuations, of an enduring character, and growing at a rapid rate, the administration and management of this business require an army of men of integrity, exceptional ability, energy, and insight, and to men of this type life insurance offers not only adequate compensation, but more than average remuneration. In no business, it is safe to say, is the division of labor carried so nearly to perfection and at such little cost to the individual. In life insurance the greatest possible range of opportunity is given to every individual worker, whether in the office or outside, and the gradations of employment are such that at least a moderate amount of success is within the reach of all who conform to the simplest principles of industry, energy, and integrity.

Broadly speaking, there are two distinct methods of life

* William Roemer, *Principles of Political Economy*, translated by J. J. Lalor, New York, 1878, vol. II, p. 261.

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insurance on the legal-reserve plan, namely, Ordinary and Industrial. Of the two the latter is relatively the more important, in that it reaches a very much larger number of people. The essential difference is in the method of paying the premiums, in that Industrial premiums are payable weekly and collected from the homes of the insured, while Ordinary premium payments are quarterly, semi-annual, or annual, and are required to be sent to the office of the company. A further distinction is that the average amount of insurance is about \$120[\$137 in 1908] on the Industrial, against about \$2,100[\$1,932 in 1908] on the Ordinary plan. These two distinct methods of life insurance, although derived from the same fundamental basis of mortality and finance, offer different opportunities for young men who make a choice of life insurance as a career.

Again speaking broadly, the work of a life insurance company is divided into office work and field work, or administrative and agency work. By the latter term, in Industrial insurance, are understood the soliciting for new business and the continued collection of the weekly premium; in Ordinary insurance, only the soliciting for new business and the collection of the first annual premium. The home office work is practically the same except in so far as the administration of an Industrial-Ordinary company is more intricate and more subdivided into different departments, on account of the enormous number of risks insured. With an Industrial company (such as The Prudential) the number of risks is counted by the million, and the new proposals for insurance average from twenty to thirty thousand weekly. This requires a large office machinery for accounting, inspection, tabulation, analysis, etc., and for this reason the home office of an Industrial company may be said to offer a wider field for the development of individual talent.

The field work of Ordinary and Industrial agents has much in common, and yet there is a radical difference. Both

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classes of agents have to secure business by personal solicitation, with this difference, that the former reaches the more prosperous element of the population, while the latter is expected to canvass largely among the families of wage-earners or people of small means. This work is thoroughly supervised by district superintendents and assistant superintendents, who are responsible for the most effective development of their respective districts. While the average amount of insurance under Industrial policies is about one-seventeenth of that of the Ordinary, the opportunity for insuring the entire family increases correspondingly the opportunities for making an agency a position of material importance. The usual method is to transfer to a new agent a certain amount of collectible premiums, and through this introduction to the business he becomes familiar with the territory and soon adapts himself to the local conditions. Promotion is rapid from the position of an agent to that of an assistant superintendent, with a guaranteed salary, and to the still higher position of district superintendent. Very little technical education is required for Industrial field work, and the chief elements of success are energy, tact and integrity.

Additional attractions for employment as life insurance field workers are the opportunity for outdoor life, contact with different elements of the population, and, perhaps most of all, the certainty of finding remunerative employment in any part of the country—in fact, in almost any part of the civilized world. A good solicitor for life insurance can secure a paying position anywhere, and he will be readily employed if he can furnish satisfactory references and proper credentials.

Ordinary solicitors require a fairly thorough technical instruction in the general principles and practice of insurance, since the large variety of plans of insurance offered to the public by different companies makes competition very keen, and success often depends upon a perfect knowledge of the intricacies of the business. The more thoroughly the

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Ordinary solicitor realizes the necessity for energetic personal canvassing the more likely it is that success will be attained. It has been found by experience that life insurance agency work cannot be advantageously carried on in connection with other employment. An agent should understand the essential principles of life insurance and have a thorough knowledge of every plan of insurance sold by his company and its chief competitors. The men who succeed best are those who limit themselves in their arguments to a straightforward statement of the facts in the case—in other words, to the cost of insurance and the results to be realized by the insured. Men who intelligently adapt themselves to the exigencies of the occupation are practically certain to meet with modest success, and reasonably certain to meet with more than average success, such as would follow corresponding efforts in other directions. Every agent should also make himself familiar with the history of his company and with its business principles and office practice, as well as with the general history of life insurance and the readily comprehended arguments in favor of this form of family protection.

The general status of the life insurance solicitor has very materially improved within recent years, largely because of the superior class of men who are now attracted to this calling. The arguments in favor of insurance have become more intelligent, the literature distributed for the information of the public has been freed from technicalities and misleading controversial arguments, while at the same time the public at large has become more thoroughly familiar with the value and advantages of life insurance protection. Other things equal, it is safe to say that the best success is attained in communities in which a large number of companies are represented and are actively engaged in the extension of their business. To agents, Industrial as well as Ordinary, who will adapt themselves to the normal conditions under which success is granted, life insurance offers to-day exceptional oppor-

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tunities for remunerative employment and for rapid promotion to higher grades of field management, as well as to the administrative branch of the business—probably better than banks, railways, and other financial and commercial enterprises.

The general management of a life insurance company is under a board of directors or trustees, according to the character of the institution—whether proprietary or mutual. The direct administration is in charge of officers and officials, to each of whom specific duties are assigned. The president's duties are to maintain a general supervision over and direction of the business of the company, both in the office and in the field, but in particular he must give his attention to the care and investment of the company's funds and to other financial transactions—a great and far-reaching responsibility.

The vast office machinery of a large company is exceedingly complex, and not readily separated into its integral parts; but there are usually three groups of officers—the first, or executive, being in general charge of the office and field administration; the second representing law, finance, and real estate; and the third the actuarial, medical, and statistical departments.

The Ordinary field administration is always under the immediate direction of an executive officer, usually one of the vice presidents. The territory is divided into sections, each of which is in charge of a manager, who will have under him general and special agents, whose principal duty is to solicit for new insurance. Ordinary agents are not paid a salary, but they receive a commission on new policies secured and a renewal interest in the subsequent premiums paid. In this manner permanent relations are established between the company and its Ordinary field force, and remunerative incomes are built up by degrees as the result of intelligent effort. The office work in connection with the Ordinary department is quite as involved as an intricate

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method of bookkeeping, and therefore offers a ready field for the development of individual ability.

The Industrial field operations are also always under the charge of an executive officer, generally a vice president, and subordinate to him there are division managers, to each of whom a particular section of the country is assigned. The actual field work is managed by a district superintendent with assistant superintendents, under each of whom there are a number of agents, who collect the weekly premiums and solicit new insurance. Industrial agents are paid a commission for collecting the regular weekly premiums and a special commission for new insurance written. Industrial agents also write Ordinary insurance and thus considerably increase their incomes. The superintendents and assistants are paid a fixed salary, but they have an interest in the progress of the district and they receive additional compensation for Ordinary insurance secured through their own efforts. Inspectors are employed for the purpose of investigating different districts and for occasionally taking charge of districts during the temporary absence of the superintendent, or for other reasons.

The general office organization is divided into a large number of departments, each of which is under a manager and assistant manager, who in most cases have reached their positions after having started as clerks and often as office boys. The most important departments are the secretary's, supervisor's, cashier's, auditor's, bookkeeper's, policy issue, claim, purchasing, editorial, advertising, mail, printing, and supply. Some companies have their own printing department, managed as a distinct commercial enterprise, with work limited to the needs of the company. Life insurance companies usually issue weekly or monthly publications for the instruction of the agency force and the information of the general public.

The qualifications for employment in the general office

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departments vary, but as a rule the commencement is in an inferior position, from which promotions are made to junior clerks, special clerks, assistant managers and department managers as occasions arise. The employment is practically permanent, once a position of some importance has been attained, for the unqualified are early forced out of the service after a sufficient trial.

Most of the legal work of a life insurance company is in connection with the passing upon titles, securities, investments, etc., but there is opportunity for the development of legal talent of a high order, and aside from the usual qualifications, a special knowledge of corporation law, insurance law, and medical jurisprudence is necessary and of exceptional value.

Under direction of the president, the finances are in immediate charge of a comptroller, a treasurer, and a cashier. The general duties in this department resemble the management of banks, trust companies, etc., and there are accordingly separate divisions for the conduct of the different branches of the work.

The actuary has entire charge of the actuarial department, which includes the scientific calculation of premium rates and the equally complex mathematical considerations of policy valuations. The actuarial department, on account of its highly specialized character, is divided into sections, according to the extent of the business transacted, and while actuarial work is largely mathematical it is by no means entirely so. The marvelous development of the business and the multiform supervision of life insurance companies by the different States, as well as the large variety of policies issued by modern and progressive companies, impose upon the actuary very responsible duties and functions. The actuary is required to possess not only a general knowledge of insurance principles and practice, but also of general mortality and vital statistics, insurance law, and the practice

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of accounting, together with a thorough knowledge of the theory and practice of taxation, the value of public securities and other investments, and finally, of corporation and public finance. The modern actuary, in fact, must have a broad knowledge of the practice of life insurance in all its branches to render accurate judgment upon many important questions of business administration.

The medical department is in charge of the medical directors, who primarily supervise the acceptance of risks on the basis of individual medical reports made by local medical examiners. Every risk is passed upon by office medical examiners, and undesirable risks are rejected. The requirements for employment in this department are various, but a thorough knowledge of the theory and practice of medicine, medical jurisprudence, physical diagnosis, urinalysis, etc., is essential. Local medical examiners are paid a fee for each examination, the amount of which varies according to special and well-defined circumstances.

Some companies maintain a statistical department, under the direction of a statistician, whose duties include the collection and analysis of data pertaining to life insurance, the tabulation and analysis of medical statistics, special investigations into mortality problems and a variety of other duties not readily defined. The special requirements are a thorough knowledge of the theory and practice of general statistics, some knowledge of mathematics, and a broad understanding of social and economic problems and of longevity as affected by occupation, climate, habits, heredity, etc. An indispensable part of the statistical department is a well-equipped library of insurance, medicine, law, economics, finance, etc.

In a general way, it may be said that the scientific temperament is most likely to lead to success in home office administration. This term is here made use of in the widest sense. Perhaps the first principle of success is absolute accuracy, which, in other words, means a careful training

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of all one's faculties, since the trained eye is able to see where the untrained eye discerns nothing. Scientific training, as well as all higher education, distinctly qualifies a man for administrative responsibility.

The work of a home office may be compared to the work of a general staff of an army, the very purpose of which, in a large measure, is to seek the problems that ordinary observers cannot see. If anywhere there is necessity for the preaching and practice of what President Roosevelt calls the gospel of intelligent work, it is in the office and field administration of a life insurance company. There is an increasing demand, not only for men of energy and ability, possessing integrity, tact, and perseverance, but also for specialists, to bring to a higher degree of efficiency the numerous minor departments for the investigation of facts and forces beneath the surface of everyday business experience. The demand for young men of exceptional ability is out of all proportion to the available supply, and there is abundant opportunity for the profitable employment of men of higher education, who are practically certain, other things being equal, to make a greater success in the field of life insurance than in most other branches of commercial enterprise.

Higher education in life insurance as a business has during recent years been introduced into colleges and universities, and some of the leading institutions now have general courses in insurance which possess considerable intrinsic merit, aside from the encouragement given to the development of special talents. The education of field men forms part of the work of every large insurance institution, and, aside from manuals of instruction, special literature on particular subjects, leaflets explaining particular policy forms, etc., meetings and conferences are held, at which agents are addressed by qualified speakers, for the discussion of problems of practical field administration.

The work of agency instruction is supplemented by life

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underwriters' associations, which usually combine social and educational advantages. The education of the general public in insurance principles and practice is also an important means of business extension, and all the larger companies publish literature for the information of the public, setting forth the advantages of particular forms of insurance, or dealing with matters of general interest, such as the taxation of life insurance companies, the social duty of insurance, the comparative advantages of life insurance as a mode of thrift, etc. Some companies have published their history, and a number of valuable works on the technical aspects of life insurance have been placed on the market by insurance publishers. There are many valuable journals devoted entirely to insurance matters, and State insurance departments annually publish reports which contain a mass of information, with the essentials of which every agent or office man should make himself familiar. The social aspects of life insurance are gradually being recognized by writers on questions of social reform and by students of political economy.

There is, therefore, a considerable basis of theory and experience available to students of insurance problems, reasonably sufficient for the preliminary technical education of those who make a choice of life insurance as a business career. The opportunities for individual development are exceptional, but the business is exacting in its details, and the competition between different companies is so keen that all that goes to make character in a man is required for individuals to attain more than a moderate success. While it is entirely true to say that modest success is possible to any one who will exert himself with a reasonable degree of efficiency and energy, it is equally true that the most exacting demands are made upon trained minds to meet the increasing needs of a rapidly growing business. Those who have carefully observed the tendency of the business have no hesitancy in making the prediction that within another thirty years the present

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position of life insurance will appear as insignificant as the position of the business in 1875 appears to us at the present time; and it would seem to be a perfectly rational view that the intelligent, industrious and tactful young man is not likely to be in error in making a choice of life insurance as a business career.

CHAPTER VIII

**THE TAXATION OF
LIFE INSURANCE**

**AN ADDRESS DELIVERED AT THE ANNUAL MEETING
OF THE ASSOCIATION OF LIFE INSURANCE**

PRESIDENTS

NEW YORK, DECEMBER 4, 1908

THE TAXATION OF LIFE INSURANCE IN THE UNITED STATES



OF THE many important questions and problems in life insurance administration, one of the most serious at this time demanding consideration and public discussion is the unjust and burdensome taxation of life insurance interests. The Association of Life Insurance Presidents performs only a pressing public duty by bringing this matter to public attention. Practical suggestions are urgently needed as to the best methods and means by which a further increase in the tax rate can be effectually resisted and a material reduction in the existing tax burden secured.

In my brief discussion of the subject I have purposely avoided technical details and theoretical considerations, so as to emphasize more clearly the intensely practical aspect of the subject as it confronts the administrative officers of American life insurance companies at the present time. Whatever opinion may be held as to where the burden of taxation falls in other matters, there can be no doubt as regards life insurance, for there the policyholder, and the policyholder only, pays the tax and carries the burden.

It requires no lengthy argument to establish the principle, both in morals and economics, that life insurance *as an institution* making so decidedly for human betterment should not be taxed at all. No reasonable objections can be raised to the taxation of the real property owned by life insurance companies, provided it is taxed at the same rate as the property of other commercial institutions. Nor can serious objections be made to reasonable license fees nor to the expenses of an effective system of State supervision, since

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these, in the aggregate, do not impose a very heavy burden upon the policyholders. On the other hand, in the case of State supervision the policyholders are materially benefited by increased security against possible maladministration.

The real evil, however, which confronts the companies at the present time is the excessive rate of taxes on premiums, which, constituting as they do readily apparent evidences of existing wealth, are for that reason among the most convenient sources of State taxation. It is, however, apparently forgotten that by indirection life insurance, by offering protection at moderate cost against the uncertainties of human life, relieves the State from the possible and serious burden of supporting dependent survivors and the dependent poor in their old age. No other social institution, not even savings banks or building and loan associations, useful as they are, serves so unselfish and laudable a purpose as life insurance companies at the present time. In return for this service to the State life insurance should be exempted from a large share of the taxes which are now imposed upon the business largely because the accumulations are a matter of public record and easily reached by the tax-collector as visible evidence of existing wealth.

It would, however, serve no practical purpose at this time to raise the purely academic question as to whether insurance should be taxed at all, for the exigencies of governmental policy will continue to demand a fair share of the policyholders' accumulations for general purposes of public taxation. It is useless to strive for the unattainable. The real question, then, which confronts the administrative officers of life insurance companies is not whether life insurance as an institution should be taxed at all, but rather what should be the most practical and equitable method, and what should be the maximum rate consistent with the needs of government. An equitable method and rate having once been established, any future attempt to increase life insurance taxation should be most vigorously opposed.

The Taxation of Life Insurance

The facts and considerations which I shall present are rather for the purpose of emphasizing an important duty on the part of all administrative officers of life insurance companies. We should enlist public opinion generally and the co-operation of the policyholders in particular, in a determined effort to oppose any further increase in the tax burden already carried by the companies, and, as far as possible, to secure a material reduction in the rate, making it more compatible with the high aims and purposes of life insurance, which are for the public good.

In round figures, American legal-reserve companies, with a gross premium income of \$533,000,000 during 1907, paid in taxes, licenses and fees for State supervision over \$11,000,000, or a sum equivalent to 2.1 per cent. of the premium income.* In the last ten years the companies have paid in taxes of all kinds the enormous sum of nearly \$85,000,000, and by just so much the net cost of life insurance in the United States has been increased, to the decided detriment of the companies and their policyholders.

The general method of insurance taxation in the United States is sufficiently well understood to require no extended discussion to emphasize the practical difficulties which confront the administrative officers of insurance companies. It needs only to be pointed out that every State has its own method, as a rule so complex and involved as to materially increase the office expenses of the companies in the book-keeping, auditing, legal, and other departments. For the purpose of illustration, however, I may state that in Massachusetts the general tax is one-fourth of one per cent. on reserves; in Ohio the tax is two and one-half per cent. on the gross premium income, less return premiums and reinsurance premiums received from other companies; in Indiana three per cent. of the premium income after deducting losses;

* During 1908, 171 American legal-reserve companies, with a gross premium income of \$545,858,410, paid in taxes, licenses, and fees for State supervision \$12,352,292, a sum equivalent to 2.26 per cent. of the premium income.

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in the District of Columbia one and one-half per cent. after deducting dividends; in Arkansas two and one-half per cent. on premiums, less losses and commissions; and in New Hampshire, among others, one per cent. on gross receipts.

Equally complicated is the method of rendering the annual accounts. For example, the final date for tax payments varies all the way from January 31st, in Kentucky, to November 30th, in Massachusetts. Among other suggestive facts, mention may also be made of the method in Montana, where counties tax excess premiums received over losses and ordinary expenses incurred; in Kentucky a tax of two per cent. on gross premiums is charged, and certain cities levy an additional tax of one and one-half or two and one-half per cent. on premiums received on new business; in South Carolina quarterly returns are required to be made to the State, showing premium receipts by counties; while in Texas the system is such that most of the large and representative companies have left the State. The mere clerical labor involved in meeting these widely varying requirements is a very considerable item of cost to the policyholders, which is not included in the enormous total previously given.

Changes are made nearly every year in the taxing methods of some State or other, which demand constant vigilance to avoid heavy penalties for failure to comply with mere technicalities. "Each age," as has been well said by a distinguished authority on taxation, "has its own system of public revenue . . . and ideals of justice in taxation change with the alteration in social conditions."* There is, therefore, hope that in the future the method of insurance taxation will become more uniform and simplified. There is indeed strong encouragement in the effort of this association, in co-operation with the Insurance Commissioners of the different States, with other bodies of underwriters, and most of all

* *Essays in Taxation*, by E. R. A. Seligman; New York, 1900, p. 1.

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through the intelligent and active co-operation of policyholders, to bring about such changes as are most conducive to the conservation of the vital interests that are at stake.

Legislatures in time will realize the serious implication of the words of Chief Justice Marshall, "that the power to tax involves the power to destroy," and that overtaxation of life insurance interests must unquestionably be followed by serious consequences to the people as a whole. Conceding the truth that "good law is not always sound economics,"* it is equally true that economic and moral principles must in the end govern any rational legislation for the common good. The position which the companies take in this matter is, I think, not opposition to taxation, as such, but to overtaxation in a most serious form, unquestionably detrimental to the best interests of the policyholders and the public at large.

To make this assertion as clear and concise as possible, and conclusive for the end in view, we may compare the tax burden imposed upon life insurance companies in this country and in Germany, omitting details and dealing only in round numbers with the facts, for which there is official authority, derived from readily accessible sources. I have selected the German Empire for purposes of comparison because its economic and financial conditions are at a decided disadvantage as compared with those of the United States. The problem of meeting ever-increasing military, colonial, and other expenditures has left to that country few sources for additional taxation. It might well be assumed, therefore, that the exigencies of the situation would induce the German government to exact the largest revenues practicable in the form of taxation from the life insurance companies of the Empire. However, according to the official returns, in Germany, during 1907, life insurance companies, with an annual premium income of over one hundred and twenty

* *Essays in Taxation*, by E. R. A. Seligman; New York, 1900, p. 137.

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million dollars, paid in taxes of all kinds only about three hundred thousand dollars, or less than one-fourth of one per cent. of the premium income! This is indeed a humiliating contrast with our American experience.

In brief, if the rate of taxation paid by German life insurance companies prevailed in the United States there would be an annual saving to the policyholders of our country of many millions of dollars. Considering the enormous natural resources of this country, its superior economic conditions, the much lighter burdens of military expenditures and pensions, it is greatly to the credit of the German Empire that it should have refrained from drawing, for the purpose of general taxation, upon the funds representing the best evidence of thrift, self-sacrifice, and self-denial which can be exhibited by any people, in any form, at any time. Other illustrations could be cited to emphasize further the assertion of overtaxation of life insurance in the United States, in comparison with foreign countries, but it would only be cumulative evidence.

I would, therefore, suggest that one per cent. of the premium income, in lieu of all other charges except taxes on real estate, should hereafter be considered the maximum premium income tax rate on life insurance that should ultimately obtain throughout the United States. I realize, of course, that theoretically some other basis than premium income might prove a more satisfactory method, but we must take into account existing conditions and the actual practice of many years. The method of taxing life insurance premiums as a convenient basis of taxation is certainly more firmly established than any other. To bring about a material reduction in the tax rate, less radical changes in present laws will be necessary if this method of taxation is made general throughout the country. To secure the adoption of a theoretically more perfect and satisfactory plan of life insurance taxation seems hopeless. A uniform premium

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tax of not more than one per cent. would not be an insupportable burden upon the policyholders. The yield of such a tax would in any event very much more than pay the necessary cost of State supervision.

But it is not only the present problem of overtaxation which confronts the companies—even more of a menace is the constant risk of a further increase in the rate as the result of new statutory requirements. Unfortunately, legislatures are apt to proceed upon the theory of an eminent French statesman: “So to pluck the goose as to produce the largest amount of feathers with the least possible amount of squealing.”*

Looking backwards over a period of years, it appears that twenty years ago the rate was not much over one per cent., and by 1892 it had increased to 1.5 per cent. During the Spanish-American war there was a further rise to 2 per cent. in 1898, and to 2.2 per cent. in 1899, while during 1906 and 1907 the rates have been 2.07 per cent. and 2.08 per cent., respectively.† The question may well be asked, Where is this increase to stop? and whether there is not a practical certainty that the rate will go up to 2.5 per cent. unless the Association of Life Insurance Presidents, in behalf of the policyholders, adopts a definite policy to oppose any and every increase which may be proposed in any one of the different States. Such resistance is a public duty imposed upon the association and upon the companies individually, to safeguard the interests of the policyholders, who are otherwise a defenseless prey of ill-advised legislation and irrational methods of overtaxation.

It is an encouraging sign that the subject of life insurance taxation has been taken up by the National Convention of Insurance Commissioners. Their special committee on taxation in its recent report condemns the taxing of life insurance

* Colbert, as quoted by Hadley, in his *Economics*, p. 450.

† During 1908 the taxes paid by American legal-reserve life insurance companies were \$12,352,292, or equivalent to 2.26 per cent. of the premium income.

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companies except on real estate owned and for State supervision, and points out that the present premium income tax is discriminatory and excessive. Realizing, however, that as a practical solution of the problem a premium tax of some kind is likely to prevail, they make, among other recommendations, the following: "That the rate of the premium income tax, if one be imposed, shall be fixed by methods that will give some assurance of equality of the rate with that of other taxpayers." The suggestion I have already made, of establishing a uniform premium tax of one per cent., is in close agreement with this recommendation.

Every policyholder has a direct personal interest in this tax problem, and the value of his aid and co-operation in the efforts of this association to resist any further increase in the rate and to work deliberately for a material reduction cannot be overestimated. Such a reduction in the case of burdensome or unjust taxation is not without precedent. The income tax levied during our great exhausting Civil War never amounted to more than 2.5 per cent. on gross incomes, or identically the same as the rate of life insurance taxation now exacted by law in certain States. Although the Federal income tax was the immediate result of the greatest war in modern history, it was not permitted to continue a day longer than the needs of the nation absolutely required. The arguments which were then put forward in Congress for its reduction or repeal apply with far greater force and more justice to the reduction or repeal of taxes now imposed upon life insurance premiums.*

Insurance history is not without precedent for favorable changes in tax legislation, for in times past, when the beneficence of insurance was less clearly realized, taxes which were practically prohibitive were imposed upon fire insurance premiums.† In response to a clear presentation of the facts the earlier prevailing tax rate has been reduced, and in cor-

* *Speeches and Reports on Finance and Taxation*, by John Sherman; New York, 1879, p. 371.

† *Taxation and the Funding System*, by J. R. McCulloch; London, 1845, pp. 285 et seq.

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responding proportion the business has increased, to the incalculable benefit of mankind.* It is historically true that the very stamp taxes imposed by England upon the American colonies, including stamp taxes upon insurance, were less burdensome, all things considered, than the taxes imposed upon insurance interests at the present time.

It is an accepted canon of taxation, laid down by Adam Smith more than a century ago, that "the subjects of every State ought to contribute toward the support of the government as nearly as possible in proportion to their respective abilities—that is, in proportion to the revenue which they respectively enjoy under the protection of the State." But the revenue of life insurance companies is not the revenue of corporations for profit-making purposes, but the accumulation of a trust fund chiefly for the support of dependent survivors who might otherwise become a charge upon the State.

It is another accepted canon of public finance that "taxation should never touch what is necessary for the existence of the contributor," and certainly no argument is required to sustain the contention that life insurance protection is an imperative necessity to safeguard the mass of our people against the humiliating need of State or private charitable aid. Life insurance in itself is a voluntary tax, self-imposed by the most thrifty element of the nation and for the most commendable objects, and to tax such effort is to hinder thrift and to hinder the development of the finest traits of national life and character.†

But I am well aware of the practical difficulties which confront life insurance companies in securing radical reforms in taxation. My main object has been to emphasize the facts of the situation and to urge the serious consideration of the subject upon the administrative officers of life insurance companies and upon earnest and impartial students of

* *The Fire Insurance Duty! History of the Agitation for Abolition or Reduction, Showing the Duty to be Bad in Principle, Obstructive to the Progress of Insurance, and Opposed to the Public Interest.* London, 1863.

† *Public Finance*, by C. F. Bastable; London, 1903, pp. 411-421.

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insurance methods and their results, but most of all upon the vast body of American policyholders who carry a needless burden of expense from which it is the duty of the State, as far as possible, to relieve them.

I therefore repeat that if the German Empire, with its vast burden of military, colonial, and other expenditures far in excess of ours, refrains from taxing its life insurance policyholders more than a quarter of one per cent. of the premium income, there can be no economic or political justification for imposing a tax of two per cent. (eight times as much) upon the premium income of American life insurance companies.* If the great State of New York, with its numerous State and municipal expenditures of all kinds, refrains from taxing life insurance companies more than one per cent. of the gross premium income, I insist that there is no justification on the part of other States to tax life insurance companies at a higher rate.

If the average rate were reduced to one-half of what it is at the present time, and if it were accepted as an established practice in taxation that premium receipts of life insurance companies should under no circumstances be taxed more than one per cent., there would at the present time be a saving to the policyholders of about five million dollars a year, which would revert to them in the form of larger dividends or a corresponding reduction in premiums.

The problem before us is a practical one. Life insurance is greatly overtaxed. The prospect of securing the general adoption of a perfect system of taxation is too remote for serious consideration. A uniform premium income tax of one per cent. would be a practical working basis. It would more than repay the States for their supervision and protection and would materially decrease the cost of life insurance to the millions of American policyholders.


* The German rate of insurance taxation is derived from the annual report of the Imperial supervising insurance department, Berlin, 1908.

CHAPTER IX

**THE
REGULATION OF INSURANCE
BY CONGRESS**

**AN ADDRESS DELIVERED
AT A MEETING OF THE BOSTON LIFE
UNDERWRITERS' ASSOCIATION
NOVEMBER 22, 1904**

THE REGULATION OF INSURANCE BY CONGRESS

NSURANCE in all its branches is to-day one of the most important elements of general progress. Within twenty years the funds of level-premium life insurance companies alone have increased from five hundred million to more than two thousand million dollars, while the annual income during the same period has increased from less than one hundred million to more than five hundred million dollars. A business of such vast proportions, especially as carried on by chartered companies, has properly been made an object of the special solicitude of the State, and almost from the very beginning of insurance as transacted by moneyed corporations we meet with a well-defined attempt at State legislation, which in course of time has been developed into a complex system of supervision, regulation, and control. The resulting problems to the companies and to their policyholders are serious, and demand the most careful and expert consideration.

The modern system of State supervision, which originated in Massachusetts in 1855, has since been adopted, more or less, by every State and Territory, until a company transacting a national business is subject to supervision and regulation by some fifty different supervising authorities or insurance departments. Aside from the great expense involved in this form of oversupervision, the companies are required to devote much time and thought to meet demands for special information, which, when furnished, is of no practical use either to the State or to the policyholders. There is probably no other business in which the art of accounting and audit is carried to such a high degree and in which the details of management and operation are so thoroughly well known and understood as in insurance. Not only do

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the companies suffer from overlegislation, resulting in a body of laws often making that a duty in one State which might be a crime in another, but without exception this system of voluntary thrift, foresight, and prudence is made the subject of excessive taxation, until the burdens have grown to be such as are not imposed upon any other form of enterprise. During a period of forty years the American life insurance companies alone have paid in the form of taxes the enormous sum of about one hundred million dollars. The present annual amount paid in taxes, licenses, fees, etc., is about nine million dollars.* This practice of overtaxation is contrary to every sound theory of social and political economy, which holds that life insurance, as such, should not be burdened with taxes in any form; but it seems to be the modern theory of the State that these taxes may be imposed and that they may be increased whenever at its pleasure a State legislature sees fit to do so.

These and other problems have been confronting the companies for almost fifty years, but in a more aggravating, vexatious, and burdensome form at the present day, until the time has come when it behooves us seriously to consider whether relief cannot be had from Congress in the form of an act substituting Federal regulation of the interstate insurance business of the companies for the present method of oversupervision by some fifty different insurance departments. The policyholders and the agents, as well as the companies, are vitally interested in this question, and this is my excuse for bringing the matter once more before you, for I understand that on at least two previous occasions you have given consideration to this subject.

My treatment of the subject will be largely historical, for it is not so much what I myself may believe to be the best policy, as what the logic of events and actual experience, extending over a period of years, demonstrates beyond

* The taxes paid during 1908 by legal-reserve life insurance companies of the United States amounted to \$12,352,292.

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controversy to be required for the absolute security and protection of insurance policyholders. I shall therefore draw freely for my remarks from the writings of those who, with exceptional ability and insight, have considered the problem in its various aspects, from the inception of the idea, in 1864, to the present time. The literature of the subject is very extensive, and I can touch upon only a few essential points, but I make grateful acknowledgment of the efforts of all who in the past have done so much to advance the cause of Federal regulation, especially during the period when the outlook for ultimate success was almost hopeless. But for these early labors in behalf of a cause of the utmost importance to insurance interests, the present status of the question would not warrant the firm belief that the time is near when favorable Congressional action may be expected to put an end to what has become an intolerable situation to the insurance companies and their policyholders.

For forty years efforts have been made to secure for insurance the same Federal recognition as a national business that has been extended to railroads, telegraphs, banks, and many other commercial interests. The passage of a national banking act in 1864 suggested, in 1865, the first agitation for the Federal regulation and control of insurance as a business entitled to Federal protection against interstate warfare or the corporation antagonism of one State against every other. The history of this effort is of much interest, since it explains more recent tendencies in the same direction and emphasizes the vitality of the idea of Federal regulation.

As early as 1865 the companies found it necessary and thought it expedient to address to Congress a memorial asking for relief from the burdens of oversupervision and over-legislation.* The proposed remedy was to be a national incorporation act by which the companies would become

* *Insurance Monitor*, 1865, p. 191.

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Federal institutions in the same manner as national banks had been established under the act of 1864. Accordingly, in 1868, a bill was introduced in the Senate* conforming in its general provisions to the memorial of 1865, but it is hardly necessary to say that the bill failed to become a law, a fate that may be expected of any measure which would attempt to deprive the States of their constitutional rights to create corporations to engage in interstate commerce. The movement at the time, however, had many influential friends and supporters, and among others Mr. Elizur Wright, the well-known Insurance Commissioner of Massachusetts, who, in his report for 1865, gave the weight of his authority to the idea of Federal supervision and regulation in the following language:

“Inasmuch as insurance is a general interest, and every insurance institution should be secured as much as possible against the adverse operation of local causes, it is difficult for us to perceive why the supervision of all insurance companies of every sort intended to operate beyond the limit of State lines should not be a function of the general government. There seems to be no less reason for regulating it by a national bureau than for taking the census or encouraging agriculture or invention by one. Simplicity and economy alone seem to require it. And since the citizens of every State do, as a matter of fact, largely avail themselves of every constitutional right to the privileges of citizens of other States, it may well be questioned whether, in regard to life insurance especially, any State can protect itself as well as it might be protected by the general government.”

Even at this early period it was recognized that most valuable aid would be derived from the support and co-operation of agents and underwriters generally. Accordingly Mr. C. C. Hine, the late editor of the *Insurance Monitor*, prepared a circular in support of a national insurance law, which was widely distributed over the country. The

* Reprinted in full in the *Insurance Times*, 1868, p. 42.

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language of the circular applies in part to present-day conditions as truthfully as to those of forty years ago :

“Legislation in the several States toward the insurance companies of sister States has proceeded in a spirit of persistent and injurious hostility, until it has created an almost prohibitory burden of taxes, forced loans, deposits, licenses, subsidies, compulsory advertising fees, etc., etc., State, county, and municipal, that would surpass the belief of one not familiar therewith. Generally these laws do not look to the real security of the policyholder or the strength of the companies, but are apparently conceived in a temper of extortion and unfriendliness to enterprises that are the handmaids of commerce and the guardians of all our destructible values.”

Naturally these propositions for Federal interference in what was apparently a domestic affair of the States were strongly opposed by those who adhered to a narrow theory of States' rights against the larger conception of nationality. To the friends of the measure it was clear, however, that the business, within a measurable distance of time, was destined to become more and more national in character and extent, and as such was even then rightfully entitled to Federal recognition and regulation. The prevailing opinion in favor of such a measure was ably set forth in a learned article in the *Monitor*,* which said in part:

“At an early period of our history the want of uniformity in our trade relations had resulted in serious inconveniences, and in 1787 Alexander Hamilton, in the *Federalist*, declares that the interfering and unneighborly relations of some States, contrary to the true spirit of the Union, have, in different instances, given fair cause of umbrage and complaint to others, and it is to be feared that examples of this nature, if not restrained by a national control, will be multiplied and extended until they become not less serious sources of

* *Insurance Monitor*, 1866, pp. 53-54.

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animosity and discord than injurious impediments to the intercourse between the different parts of the confederacy. In spite of the precautions subsequently taken, Mr. Hamilton's predictions have, as our insurance companies can testify, been literally fulfilled, and nothing but decisive Congressional legislation can prevent the accomplishment of the remainder of this prophecy, which is, that we may reasonably expect from the gradual conflicts of State regulations that the citizens of each will at length come to be treated by the others in no better light than that of foreigners and aliens."

These apprehensions of interstate warfare have been fulfilled to the letter in more recent years.

In 1868 a new factor entered into the consideration of the subject, unexpected at the outset. A decree was rendered by the United States Supreme Court in the case of *Paul vs. Virginia*, and made public some time during December, which seemed, for the time at least, effectually to bar all hope of relief from oversupervision and overlegislation through the Federal government. Insurance, by this decision, was declared *not* to be commerce, and therefore not subject to Federal control. This decision has given rise to endless discussions, which it would be neither profitable nor desirable to revive at the present time. The argument may be summed up in the statement that while the decision of the Supreme Court *seemed* to dispose of the view that insurance was commerce, in the same manner as banking, transportation, telegraph messages, etc., it in fact did not do so. That decision, and those which have followed, did not relate to the real point involved in a consideration of the regulation of *the insurance business* as interstate commerce by the Federal government. This point cannot be considered by the Supreme Court until *after* Congress has passed a law regulating such business in general conformity with the Interstate Commerce Act.

It is the opinion of qualified authorities who have given

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most careful consideration to this aspect of the subject, and who have properly taken account of several recent important decisions of the Court involving similar questions, that under the implied and resulting powers of the Constitution the Supreme Court would not withhold the verdict of constitutionality from an act of Congress declaring interstate insurance to be interstate commerce.

The defeat of the bill in 1868 did not discourage those who were in favor of national regulation and supervision. The insurance journals of the period contain many able and instructive dissertations illustrating the evils and burdens of oversupervision and overlegislation and pointing to the necessity for relief through Congress. What has given rise to so many perplexing situations during recent years, on account of conflicting laws and conflicting opinions of the Insurance Commissioners of the different States, or of different Commissioners of the same State, was anticipated in an article in the *Insurance Times* of 1869,* from which I quote in part as follows:

"The cost, immense and oppressive as it will prove, is not, however, the only consequent grievance of which the companies will have cause to complain. The laws of the different States will conflict, and their partiality will lead to hostility, retaliation, bitterness of feeling, mutual injury, and disaster. It is impossible to foresee one-half of the long train of evils which will certainly afflict insurance through this multiform and onerous legislation in so many different sections. The ruinous system is already taking root, and before it becomes ineradicable the leading insurance companies ought to combine and move at once, with all the influence and power they can command, to save themselves from destruction by this many-headed hydra."

These apprehensions of serious danger, threatening the very existence of the companies, were proven by subsequent

* March, 1869, p. 179.

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bitter experience to be well founded. Those who are familiar with the dark side of insurance history during the early seventies need not be reminded of the considerable number of failures of companies, many of which, it is clear to us to-day, might have been saved under a more effective system of State supervision and control. It has been stated time and again by those thoroughly familiar with the facts* that insurance companies otherwise destined to a long career of usefulness were wrecked and forced into liquidation by a defective system of State supervision, which attempted to *manage* the companies, instead of leaving the management and the responsibility therefor to the officers, stockholders, or trustees.

While up to this time most of the agitation for Federal supervision had come from the life insurance companies, some of the large fire and accident companies now commenced to take an active interest in the subject. The late president of the Travelers was one of the first to favor Federal regulation, and he adhered to that view to the end of his life. Aid also came from an unexpected source, in that the Treasurer of the United States, in his annual report to the Secretary, called attention to the need of Federal regulation of insurance.† Two life insurance companies had been granted national charters, under which they were required to make deposits with the national government. After calling attention to the need of adequate legislation, Mr. Spinner concludes:

"In this connection it may perhaps not be inopportune to suggest the propriety of having established by law of Congress a governmental bureau, to have charge of the affairs of all kinds of insurance companies and associations in the same manner as the Comptroller of the Currency now has charge of the affairs of all the banks that issue paper money in the United States."

I am citing these illustrations as evidence of the universality of the idea and the growth of the conviction that for

* State Supervision of Insurance, in the Independent for 1891.

† Annual Report of the Secretary of the Treasury for 1871, p. 266.

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the more effective protection of the interests of insurance policyholders *the increasing importance of the business demanded its nationalization by the Federal government.* The companies have never objected to supervision by the State from which they derive the charters which give them corporate existence. What they do object to and what they protest against in behalf of their policyholders is over-supervision and overlegislation by other States, much, if not most, of which is a distinct hindrance and in many respects a serious menace to the best administration of these useful institutions.

That the demand for Federal legislation came not alone from the companies is made evident by suggestions for an appeal to be made to Congress by life insurance policyholders, in 1877, requesting the Federal government to interfere in their behalf and pass a law calculated to reduce or mitigate their wrongs and hardships and prevent their recurrence.* If these efforts were to small purpose, they nevertheless had considerable educational value. A few years later, in a special pamphlet, Mr. Nat Tyler, of Washington, D. C., for the first time brought the subject before the public in a convenient form, but then, as now, most of the objections against the passage of a Federal insurance law were based upon the assumption that the decision in the case of *Paul vs. Virginia* would act as a bar and that the United States Supreme Court would declare such an act unconstitutional. This, in my opinion, as I have previously pointed out, is an unwarranted assumption not sustained by the facts of our constitutional history. I have it on high authority that since the Constitution went into effect, in 1789, there have probably not been a score of cases in which an act of Congress has been declared unconstitutional, and of these I do not think even one affects Congressional action regarding the clause regulating commerce between the States.

* *Insurance Times*, 1877, p. 631.

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The continued agitation for Federal regulation of insurance in 1885 induced the then Commissioner of Massachusetts, Mr. Tarbox, to consider the subject in the light of his own experience, and his conclusion was as follows:

"I am not satisfied that insurance has yet so far outgrown State jurisdiction as to become a fit subject of Federal control and regulation. But I recognize the embarrassment it may suffer from this conflict of laws of the different States. This consideration enforces the wisdom of a generous reciprocity between the States, and counsels that legislation affecting insurance interests should be framed in a liberal spirit and regardful to relations and effects without, as well as within, State boundaries. For while, for certain political objects, the States are several, in commercial intercourse they are one. If State legislatures will wisely respect this community of States and the reciprocal obligation it creates, the time is remote, if ever, when occasion will arise for Federal intervention."

Unfortunately for the companies and their policyholders, State legislatures rarely act wisely on questions of interstate comity, and we have during recent years seen more of interstate warfare and of antagonism against the corporations of other States than, as far as I know, had been the case in the past. Few men have written more ably upon this aspect of the question than the late Mr. Batterson,* who, referring to the case of a western State, said:

"When Wisconsin, for example, by an act of her legislature, forbade the corporations created by other States from removing causes of action to the Federal courts, it was well known that the act was unconstitutional, but it was done because the penalty of expulsion was considered sufficient to prevent any corporation from availing itself of a guaranteed right. To this guarantee the State of Wisconsin became a party by the most solemn obligation when she ratified the Constitution and was admitted to the Union of States.

* *Interstate Warfare and How It Affects the Insurance Business*, Hartford, Conn., 1898, p. 13.

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Moved, however, by local prejudice, she deliberately repudiated her guarantee and expelled the company to which she owed this sacred obligation. It was an act of bad faith in the performance of her undertaking to sustain the Constitution for the unworthy purpose of compelling an enfranchised corporation to submit to her own tribunals without exercising the guaranteed right of removal."

It is legislation of this nature which lies at the root of the agitation for Federal regulation and, if necessary, for Federal control. It was, in fact, the passage of so-called deposit laws by the different States during the early sixties which produced the revolt against oversupervision and over-legislation as inimical to the best interests of the policy-holders and opposed to the best interests of the companies.

In 1892 life insurance was indirectly represented in Congress by Mr. John M. Pattison, the president of the Union Central Life Insurance Company. Mr. Pattison introduced a bill* providing for the national supervision of insurance companies and the national jurisdiction over all insurance companies, of whatsoever kind, engaged in an interstate business. It provided for a national bureau of insurance at Washington, to be presided over by a commissioner of insurance, with power to issue licenses to the companies, authorizing them to do business in any State or Territory, subject to no other requirements than those enacted by the Congress of the United States and by the State in which the company was organized. The companies were required to make reports to the national bureau practically identical with the reports made to the various State departments at that time, but they were not to be required to make thereafter reports to the insurance departments of any other State than the one from which they had derived their

* Reprinted in full in *Views*, 1892, p. 160. *Views* is an insurance publication established in Washington, D. C., in 1889, by Mr. Max Cohen, editor, primarily for the purpose of agitating the question of national regulation of insurance, of which Mr. Cohen has made a life study. *Views* is a mine of valuable information, including reprints of most of the important measures and papers bearing on the subject which have been published during the last fifteen years.

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charter. The bill, in spite of many excellent provisions, was, unfortunately, weighted down with too many minor provisions and matters of detail, which gave rise to an opposition sufficiently strong to prevent a favorable report.

Mr. Pattison, in 1893,* in a discussion of his bill, pointed out that it was not intended to abolish State supervision as such, for even if that were possible he would not consider it desirable. The object was to give the United States government control of the interstate business of the insurance companies, leaving to the commissioner of each State control of everything pertaining to the fire, life, and accident companies of his own State. Had the measure passed, the resulting relief to the companies from oversupervision and overlegislation would have been very considerable.

The defeat of the bill of 1892 only increased the agitation for Congressional action and every further discussion attracted friends and supporters to the proposed measure providing for the regulation of insurance by the Federal government. Some of the strongest advocates of such a measure were insurance commissioners of large experience, and at nearly all the annual conventions following 1895 the matter was discussed in papers of great merit and permanent value as contributions to the literature of this important subject. Among those who came out openly in favor of a Federal law governing insurance was Mr. William A. Fricke, the then Insurance Commissioner of Wisconsin, who first mentioned the subject in his report for 1895, where he said:

"The reasons for national regulation of insurance are many—the objections few. We have now forty-nine different insurance codes, forty-nine different modes of taxation, and almost forty-nine different kinds of supervision; there is no attempt at uniformity of legislation; with a national department we should have better insurance laws, they could not be so localized and tainted with local prejudices."

* Address at meeting of Boston Life Underwriters' Association—Views, 1893, p. 253.

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Mr. Fricke has restated his position from time to time with admirable clearness and a thorough grasp of the principles involved and the results to be obtained.

There are those, of course, who conscientiously believe in our present system and consider national regulation as an unwarranted interference with the rights of the States. It is held that by co-operation of insurance commissioners much oversupervision may be avoided, and it is but right to say that some good has been accomplished in this direction; but, reviewing the thirty-five annual conventions of insurance commissioners which have been held since the first meeting in 1871, the unsuccessful efforts to secure uniformity, and most of all co-operation, among the States in the vital matter of expensive investigations do not make the outlook for the future encouraging. As an illustration, I may recall that at the annual convention in 1898* the committee on laws and regulations reported a resolution which read as follows:

"That as the Constitution of the United States requires each State to accord full faith and credit to the public acts, records, and judicial proceedings of every other State, in the benign and patriotic spirit of this requirement, the insurance department of each State should, as far as possible, leave the supervision of every insurance company of another State to the proper department of that State, accepting the results and records of its supervision and examinations; and, *in particular, the special examination of the assets, methods, and accounts of a company should as far as possible be conducted, when such examination is necessary, by the department under whose jurisdiction it is organized*, and that the department of any State should decline to undertake such special examination of a company of another State in which a similar department is established by law, unless upon the invitation of such department, or, unless such department, after direct request for the results of an examination has

* Proceedings of the 29th Session, p. 64.

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been made, shall have refused to report the same in satisfactory detail or neglects to make such examination within a reasonable period of time."

If this idea could have been carried out it would have removed one of the most serious objections to the present system of State supervision, but it is significant to find that the resolution failed of adoption by an overwhelming majority.

What is known as the "Platt Bill"* was introduced in the United States Senate, December, 1897; in a general way it conformed to the present-day requirements, outlined in the Pattison bill of 1892. The Platt bill, for various reasons, among others on account of the pressure of business resulting from the war with Spain, failed of passage, and even on reconsideration at a later session efforts to obtain favorable action were unsuccessful. Referring to this attempt to secure Federal legislation on the subject of insurance, the *Spectator*, in January, 1898, said in part as follows:

"It seems clear that it is the duty of Congress to so legislate, from time to time, as to keep the laws of the country abreast with modern ideas, and to accord recognition to everything that will stimulate and facilitate interstate commerce and friendly and business intercourse between the citizens of the different States. The growth of the country and its development in wealth and prosperity are dependent upon its so doing. *It has the power most unquestionably under the Constitution to designate the factors that go to make up interstate commerce*, and to legislate for their regulation and supervision. It has so legislated regarding railroad and steamboat transportation, regarding banking, telegraph lines, etc., and it has but to declare insurance to be a necessary factor of interstate commerce to have it recognized as such by the courts of the country."

This view of the matter covers the subject in its essentials

* Reprinted in full in *Views*, 1897, pp. 279-81.

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and defines the position upon which any further efforts to secure national recognition must rest. Insurance is to-day one of the most important factors which enter into commerce, trade, and industry, and whatever can be said in favor of the national regulation of banks and railways holds good with equal force in the case of insurance. Just as we would not for a moment tolerate the idea of repealing our national banking and interstate commerce legislation, so, I am satisfied, the people would never regret the passage of an act of Congress regulating insurance between the States. It is my firm conviction that such an act would be productive of most excellent results, increasing the security of insurance to the policyholders, diminishing the now considerable amount of needless clerical labor to meet the requirements of some fifty different States and Territories, decreasing the expense rate, decreasing the burden of taxation, increasing the returns to policyholders, and thus decreasing the cost of insurance, broadening the scope of administration, and, in a word, *nationalizing the business*. Such an act would give to insurance the protection of the Federal government, to which it is rightfully entitled, because its universality and high social and economic functions now make it indispensable to the welfare of the people of this nation.

Something substantial has been achieved during the past year. The new Department of Commerce and Labor, through the Bureau of Corporations, is by law required to report upon insurance companies and their business. In the original draft of the measure providing for the organization of the Department of Commerce and Labor, a bureau of insurance was provided for and the Committee on Interstate and Foreign Commerce of the House of Representatives reported in favor of such a bureau,* holding that "the insurance interests of our country have become so great, and the business of insurance is so essentially a matter of

* "Organization and Law of the Department of Commerce and Labor," Washington, D. C., 1904, p. 542, et seq.

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interstate business, and hence largely beyond any effectual control by the State authorities, that your committee has recommended the establishment of a bureau of insurance . . .

"It seems evident that it is time for the national government to take such notice of, and exercise such control over, insurance companies as it may be entitled to under the Constitution, to the extent, at least, of the publication of information of general interest."

In debate, however, the measure met with strong opposition from those who relied in the main upon the antiquated theory derived from the *Paul vs. Virginia* decision. As a compromise, the duty of the Bureau of Corporations with respect to insurance was limited to the gathering and publication of useful information concerning corporations engaged in interstate commerce, including corporations engaged in insurance. For the present this may be considered a substantial gain, for we have now for the first time Federal recognition of insurance as a factor of progress demanding national consideration.

We may recall that it is hardly more than a year since a department of commerce and labor was established, after an agitation which also carries us back to 1864, when it was first proposed to organize a department of industry. Ten years later a bill was introduced in the House providing for the establishment of a department of manufactures and mining. During the twenty years following, practically every year some request or other was made of Congress to give a special recognition to commerce and manufactures by providing for a separate department with representation in the Cabinet. It was not until 1903 that these efforts, extending over a period of almost forty years, were crowned with success. A similar history of continuous effort precedes the enactment of nearly every important measure. Hence we may look hopefully forward and anticipate favorable action which will finally give to insurance the same

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Federal recognition which has been given to other important national interests.

What I have said must not be construed into an attack on State supervision *as such*, for I have personally the highest regard for many of the commissioners, with whom I have often come in contact and with whom I have had considerable business relations during almost thirty years. I believe, with Mr. John A. McCall, president of the New York Life Insurance Company, that State supervision of insurance, within proper limitations, has served a useful purpose and is to-day indispensable to the conduct of the business. I believe its scope could be broadened and its effectiveness increased, especially in the direction of stamping out fraudulent insurance enterprises and preventing the robbery of the public by ill-advised and often criminal methods of deception in the name of insurance. My remarks apply primarily to oversupervision and overlegislation, especially in so far as the interstate business of the companies is affected. I believe that in a great nation like ours no hindrance should be placed upon the highest development of this form of protection for the masses in every section of the land. I am opposed to the *abuse* of the principle of State supervision which has for its aim the control of the companies by dictatorial and arbitrary methods, and which, by abrogating the legitimate functions of executive officers by a forced policy or method of business conduct, tends to produce conditions at variance with the established and tried principles which underlie the insurance business.

We cannot, if we are faithful as trustees of a sacred charge of immense magnitude, abandon our position as executive officers to an insurance commissioner who is practically certain to be a man of much less experience than ourselves. What President Alexander has said* of the difficulties of his company (the Equitable) with the Prussian

* The Hazard of Inexperience, a lecture delivered in the Yale Course on Insurance, Yale Alumni Weekly Supplement, July, 1904, p. 121.

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government applies equally to the difficulties of our home companies with the different State governments, namely, that we are not willing to transfer the executive authority of our companies to the capitals of the various States, and that we must firmly decline to comply with demands which are as unreasonable as they are unjust.

At the outset I spoke of the marvelous development of American life insurance during the last twenty years. This wonderful growth is but a part of the progress of the nation at large, which challenges the admiration of the world and which justifies the earlier hopes and aspirations of the founders of our Republic. Little, however, could even the most sanguine have foreseen of the universal prosperity and high standard of life insurance to which we have attained in so remarkably short a period. We anticipate no reaction, but, on the contrary, we look forward to a future in which this business of ours will, more and more, assume the beneficent mission of a universal provident institution. This development is advanced by the largest amount of freedom consistent with safety, and whatever tends to hinder this growth is decidedly pernicious.

That a large amount of liberty in the management of life insurance companies is not inconsistent with the best interests of the people is shown in the successful workings of the act passed by the British Parliament in 1870, for the regulation of insurance in that country. Although more than thirty years have passed, few amendments have been made to this simple but effective statute. Nor need we apprehend an abuse of Federal power in the regulation of insurance between the States any greater than experience has proven in the successful workings of the National Banking Act of 1864. It may be of interest to you to learn that the total cost of examinations in connection with the government supervision of over five thousand national banks during 1903 was only \$325,000, or an average of about \$64

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for each bank. The maximum cost of such an examination of a bank with large resources has only been \$2,700. While the comparison is not of exactly comparable institutions, it is, nevertheless, an extremely suggestive one. No system of national supervision or regulation will entirely prevent failures among banks any more than it will prevent accidents on railways or the occasional mismanagement of insurance companies. All government in this respect has its limitations, for, finally, *human institutions derive their worth from the character of those who are responsible for their management.*

That something is intrinsically wrong in our present system of oversupervision and overlegislation is made clear by reference to my earlier statement of an annual tax burden of some nine million dollars paid by life insurance companies alone; and I may cite as a pertinent illustration the case of the Wisconsin Insurance Department, which last year collected over five hundred thousand dollars from insurance companies, while less than twenty thousand dollars were required for the administration of the department. North Carolina collects annually over two hundred thousand dollars from insurance companies, while less than five thousand dollars are required for the maintenance of the department. This practice of excessive taxation is, of course, common to many other States. Such facts as these, and I quote illustrations ready at hand, warrant the conclusion that in many cases these departments exceed their proper function and become mere agencies for the collection of taxes from certain corporations of other States, which are, in fact, social institutions which ought to be relieved largely or wholly from burdens that retard the highest development of foresight, prudence, and thrift among our people.

Insurance is to-day a universal provident institution reaching all classes and affecting, more or less, all commercial interests. It is an essential element of human progress and a method

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and means for the uplifting of the masses to a higher level of economic security. It has become national in character, and few companies confine their operations to a single State; in fact, if operations were so limited they might prove disastrous and make the conduct of the business impossible. The American Constitution was wisely framed to meet for all time our needs as a free and progressive people and this instrument is applicable to, and has never failed to meet, new conditions and new problems which in the course of time must inevitably arise as society advances and civilization develops conditions unthought of at an earlier date. In the words of the distinguished jurist, Stephen Dudley Fields,* "the framers of the government could not foresee all exigencies which might arise in the future, and, therefore, after expressing the great ends for which the government was framed and the powers conferred upon it, *they meant to leave the choice of means generally to the discretion of Congress.*" It is upon this inherent element of adaptability in our Constitution to meet the requirements of new conditions that we may safely rely for a favorable ruling from our highest tribunal, should the Supreme Court ever be required to pass upon the question whether an *act of Congress* regulating insurance between the States is constitutional.

It is difficult for me to understand why insurance is not commerce within the meaning of the Constitution when, from the first to the last, every authority on the history of commerce has conceded insurance to be an indispensable factor in commercial growth and development. Of the men who helped to frame the Constitution, few, if any, gave more careful consideration to the commerce clause than Alexander Hamilton, and his famous argument on the constitutionality of the United States bank contains a specific reference to insurance, apparently overlooked by those who have written upon the subject of insurance regulation by Congress. Hamilton, after

* In the case of William McCordle, involving the constitutionality of the methods employed to re-organize the government of the rebellious States, 1868.

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pointing out that all the powers conferred in the Constitution are not specifically mentioned, enumerates certain "palpable omissions" and items "which admit of little, if any, question," and among these "*the regulation of policies of insurance.*"*

Hamilton, no doubt, had made a study of insurance law and was familiar with the great work of Park, first published in 1786, or about five years before he delivered his "Opinion." Park wrote, what holds true to-day even more than a hundred years ago, that:

"The utility of this species of contract in a commercial country is obvious, and has been taken notice of by very distinguished writers upon commercial affairs. Insurances give great security to the fortunes of private people, and by dividing amongst many that loss, which would ruin an individual, make it fall light and easy upon the whole society. This security tends greatly to the advancement of trade and navigation, because the risk of transporting and exporting being diminished, men will more easily be induced to engage in an extensive trade, to assist in important undertakings, and to join in hazardous enterprises, since a failure in the object will not be attended with those dreadful consequences to them and their families which must be the case in a country where insurances are unknown."

A similar view of the close relation of insurance to commerce appears to be held by every important writer upon the origin of insurance† and the law of insurance in its most modern interpretation. Hence, the omission of any reference to insurance in the commerce clause of the Constitution would seem to be due to the same cause which Chief Justice Marshall, in the leading case of *Gibbons vs.*

* Legal Masterpieces, edited by Voeder, St. Paul, Minn., 1903, vol. I, p. 229.

† Corbyn Morris, in *An Essay Towards Illustrating the Science of Insurance*, published in London, 1747, wrote: "Insurance is that *Aid*, whereby the national Commerce is supported . . . It is evident, that insurances give Tranquillity and Cheerfulness to the extensive Trader: These only make it justifiable for him to venture in many Branches of Commerce, which are of great Benefit to the Nation: These enable him to lay a steady Foundation of Credit, To procure Money upon easy Terms, And to bring his Goods cheap to the foreign Markets. It is indeed from these only that he can often be said to be worth anything with Certainty, or can at some times justly pretend to borrow at all; And to these the Nation is indebted, that many useful Articles of Trade are rendered either reasonable, or practicable, to be carried on by its Subjects."

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Ogden, has held to apply to navigation. In the words of the great Chief Justice: "All America understands, and has uniformly understood, the word 'commerce' to comprehend navigation. It was so understood, and must have been so understood, when the Constitution was framed." And in the same sense I believe all America to-day understands the word "commerce" to comprehend insurance, and I am firm in my conviction that whenever Congress shall find it expedient to legislate upon the subject, or when in the course of time the necessity shall arise, insurance between the States will be made a matter of Federal legislation.

It may, of course, be argued that if the framers of the Constitution intended to confer this power upon Congress, insurance would have been expressly mentioned. The Constitution is an instrument dealing with general conditions, and not with special conditions which may arise in the course of time and become more and more important.

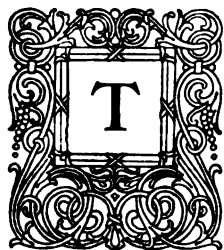
Insurance, when the Constitution was adopted, was of only local importance and was limited practically to the marine branch of the business. The development of the modern system of insurance, especially of life contingencies, has resulted in new conditions and new problems which are plainly beyond the power of the States to supervise or regulate. Insurance is not a thing of an hour, but is an enduring institution, and I cannot but think that a broad and impartial consideration of the subject will ultimately obtain for *what is now a national business* legitimate and effective regulation by the national government. I earnestly hope that the time is not far distant when, as a permanent relief from the needless and increasing burdens of oversupervision, overlegislation and overtaxation, and as an additional security for the protection of our policyholders, we shall have an act of Congress regulating insurance between the States.

CHAPTER X

THE COMMERCIAL ASPECTS OF
FEDERAL REGULATION
OF INSURANCE

AN ADDRESS DELIVERED
AT THE
THIRTY-EIGHTH ANNIVERSARY BANQUET
OF THE
NEWARK BOARD OF TRADE
JANUARY 18, 1906

THE COMMERCIAL ASPECTS OF FEDERAL REGULATION OF INSURANCE



THE proper supervision, regulation and control of insurance companies have become problems of national importance, chiefly because of the enormous extent of the business and the fact that the contracts are, in the majority of cases, made by parties resident in one State with parties resident in another. There has, therefore, come about a perfectly natural demand that insurance companies should be made subject to the restrictive power and general supervision of the Federal government, in much the same manner as the Federal government exercises control over national banks, and railways engaged in interstate commerce. The proposition appeals with peculiar force to commercial interests, since in one way or another insurance enters into all of our commercial transactions and forms a substantial item of expense in every mercantile account. Insurance constitutes a part of the price of nearly every article sold for public consumption, and while the unit cost of insurance is infinitesimal, the aggregate paid for fire, marine, inland, and miscellaneous insurance amounts to about three hundred and fifty million dollars per annum—a not inconsiderable burden upon our commerce, both at home and abroad. Insurance, in other words, is a factor in commerce and peculiarly a mercantile interest, and whatever way the business can be advanced, its cost reduced, and the security made more certain concerns all who are engaged in commerce, transportation, or mercantile transactions generally.

For some years efforts have been made to secure for insurance adequate and consistent national laws along the same lines as have been followed in interstate commerce generally, in national banking, and, since 1898, in bankruptcy. In

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the last Congress I introduced a bill to this effect, but only to secure for it a public expression of opinion as to its merits. The new bill* introduced by me this week is a modified and materially improved measure, which, if passed, will bring the insurance business within the full scope and power of Federal laws. After carefully considering the subject for many years, both in the light of theory and large practical experience, I have become convinced that legislation of this character is demanded by the necessities of our national growth and our progress in industry and commerce, and that what is to-day a vast business of national extent is, as such, entitled to the protection, care, and solicitude of Congress.

It is difficult to realize the immense growth and the marvelous changes in our position as a commercial nation during recent years without the aid of a mass of statistical data, which would be out of place on this occasion. In a general way, however, I may point out that this country is to-day different in all essentials, save our fundamental political principles, from what it was at the time when the Constitution was adopted. In 1790 our population was four millions, as contrasted with more than eighty millions at the present time. In 1790 the aggregate value of our exports was estimated at \$20,000,000, or a per capita of about \$5, in contrast with which we now export about \$1,500,000,000 per annum, or \$18 per capita. The adoption of the Constitution not only made us a nation, but stamped upon us our commercial character, which destined us, in due course of time, to attain to the leading position in the world of commerce, trade, and industry. Chiefly, however, our growth has been in the direction of internal development, and our inland trade and general business to-day is of vastly greater proportions than both our exports and imports combined. At the time of the constitutional convention there were no railways, no canals of commercial value, hardly any wagon-roads

* Senate 3026, 59th Congress, 1st Session, January 15, 1906.

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connecting one State with another, no business corporations of importance, and no insurance companies or insurance business in the sense and to the extent that that term is now commonly understood and as it is established by commercial custom and usage. The times and conditions have changed, and our earlier restricted policy has been replaced by a broad conception of national interest and expansion.

Our internal expansion and development began with the era of internal improvements (1806), and this has continued until the United States of to-day is an imperial domain with more productive wealth per capita and a more general method of distribution than any other country in the world. By 1800 only nine hundred and three post-offices had been established, with an annual revenue of \$280,000, while to-day there are some seventy-five thousand offices, with an annual revenue exceeding \$150,000,000. There was then no telegraph, which to-day transmits over one hundred million messages per annum, and no telephone, the general utility of which can neither be expressed in figures nor computed in monetary equivalents. There was then but the very beginning of insurance, which to-day is the foremost single financial interest in this land. Marine insurance was the first to become a commercial necessity, perhaps more so at that time than at the present, on account of the great development of steam navigation, the more accurate charting of the coast, resulting in a lesser number of shipwrecks, the extension and perfection of our magnificent lighthouse service, and, last but not least, a more intelligent and efficient pilotage. Fire insurance followed, and soon became recognized even by moralists as a duty incumbent upon the debtor in order to fully protect the interest of the creditor.* Without fire insurance protection the world's inland commerce could not be carried forward to-day on anything like the existing scale, nor would it be possible to secure the vast amount of mortgage

* Jonathan Dymond, *Essays on Morality*, New York, 1836, p. 111.

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indebtedness at the prevailing low rates of interest. While it is true that a considerable part of our inland commerce is not specifically protected by insurance, an open policy of insurance, as a rule, protects the carrier, who assumes the responsibility to the shipper in the event of loss. In all our immense warehouse and elevator transactions the fire insurance policy is as much a necessity as the certificate establishing the ownership of the goods in storage or awaiting shipment. In addition to these, numerous other forms of insurance have been developed, all of which have become more or less indispensable aids to commerce and industry. Among these I may mention fidelity and surety, employers' liability, plate-glass, credit, and general accident insurance. All of these forms of insurance protection reduce the element of uncertainty in commercial operations and increase commercial efficiency, and, directly or indirectly, as the case may be, increase to a considerable extent our commercial expansion both at home and abroad.*

This point of view is not new, but nearly as old as the business of insurance itself, and commercial losses due to fire, shipwreck, and other casualties are no longer met by general charitable contributions, but the reimbursement for such losses is made through associated effort represented by corporations transacting the business of insurance. As early as 1796 this aspect of the insurance problem was brought to the attention of Congress in an attempt to secure pecuniary relief for the sufferers from a great conflagration which destroyed the larger portion of the city of Savannah. It was urged in the argument in favor of the plea that not a public building, not a place of public worship or of public justice remained, that all was a wide waste of ruin and desolation; and the speaker expressed the hope that some relief would be afforded the city in its unexampled distress. In reply, however, it was said, and very properly so, that if Congress

* See also Report of the Merchant Marine Commission, Senate Report 2755, 58th Congress, 3rd Session, index p. 1926.

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were to set a precedent in this direction and accustom the public to rely upon the national legislature for relief in cases of this kind, there would be neither any occasion for insurance companies nor any inducement to improve the methods of building. This, I think, is the first reference to insurance in the debates of Congress.*

Under modern conditions insurance has become a necessity, for individual protection or that of the family can no longer be left to friends and relatives, with burdens enough of their own, but the risk inherent in the uncertainty of human existence must be, and is, assumed by insurance corporations. Contracts made to this effect with well-established companies are carried out to the letter, and very often beyond the letter of the mere written agreement between the insurer and the insured. In whatever respect insurance management may have failed to meet the highest expectation or the most severe test of public criticism, it is something very considerably to the credit of American insurance companies that on the whole and with no important exceptions they should so successfully have met their contract obligations dollar for dollar, not only to the letter of the law, but in a spirit of justice and fair dealing to the insured. It is due to this fact that insurance has become a national interest, and is now included in practically every sphere of human activity, every branch of trade and industry, every line of progress and development, in which this nation, advancing at a more rapid rate than any other, has forged its way to the foremost position among the civilized countries of the world. Insurance to-day is not a local interest in the ordinary sense of the word; but, on the contrary, it is an interstate or a national interest in the vast majority of the transactions which are carried on between the companies and the policyholders.

All of the large companies are practically national in the extent of their operations, transacting business in every State

* Benton's Abridgement of the Debates of Congress from 1789 to 1856, vol. II, p. 40.

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and Territory of the Union, and this is because of modern commercial necessities and not merely as a matter of profitable business extension. Goods shipped from Duluth or St. Louis to the seaboard to be transshipped to foreign ports are covered by a single policy of insurance which begins from the time of shipment in the West and continues to the time the goods are delivered in foreign lands. This, in the case of marine insurance, not only makes the business national but international, and, as such, peculiarly a subject of Federal supervision and regulation. Another element which enters into the problem and which has often been ignored is the fact that our population is largely of a migratory character, and people insured in one State, by removing to other States, while continuing their contracts under existing conditions, become subject to different laws, and often to a radically different interpretation of the law.

Insurance is not a subject which should be exposed to the fluctuations of public opinion as expressed in the form of frequent statutory enactments under our system of representative government in some fifty different States and Territories. In conformity with the usage of other commercial nations, it should be exclusively under the regulation of the State of incorporation and the Federal government. Such regulation, I am convinced, will be effective and economical and produce a far better state of affairs than exists at the present time. I have it on good authority that during the last five years not less than three thousand bills were introduced into the different State legislatures, more or less affecting the interests of insurance companies. This amount of legislation, new and amendatory, is uncalled for, and is demanded neither by the growth of the business nor by the contractual relations between the companies and their policyholders. In other countries, such as Germany and Switzerland, where an earlier federation of states, or cantons, had produced conditions similar to those existing

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in this country to-day, in the course of time insurance has become the subject of exclusive Federal regulation.

My views and convictions in this matter are not wholly the result of my personal experience in the business of insurance. To satisfy myself fully as to whether my views were sustained by those whose business experience or personal interest in public affairs had given them a peculiar opportunity to judge of the necessity and advantage of Federal supervision of insurance, I addressed a carefully framed circular to some eight thousand associations and individuals, throughout the United States, and of these nearly ninety per cent. favor the idea and heartily endorse, often by long letters, the effort to secure Congressional action upon this subject.*

Among others to whom my letter of inquiry was addressed were some seven hundred commercial bodies or organizations, and of this number ninety-six per cent. pronounced themselves in favor of Federal supervision. In many instances deliberate action was taken upon the matter and a formal expression of the members was secured, emphasizing the wide-spread interest in the subject and the deep conviction that Federal action upon this matter would be desirable and would be approved by the public generally. Hence, I have fully satisfied myself that the commercial interests as represented in well-established organizations are practically a unit in favor of the proposed regulation of insurance by Congress. As to the further question, whether or not insurance should properly be considered an element or instrumentality of commerce, eighty per cent. of the commercial bodies to whom the circular was addressed replied in the affirmative. The inquiry was also addressed to a large number of the presidents of national banks, upon the theory that, these institutions having for many years been under Federal supervision and regulation, their officers were in an exceptional

* For details see Appendix A, pp. 289-293.

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position to express an opinion as to whether Federal regulation of insurance would be desirable or not. In addition it must be taken into consideration that these banks, in a general way, are interested in insurance to the extent that many loans upon goods in transit or in storage require the additional guarantee of a certificate of insurance before the loan will be granted or an advance made by the bank. Of those making answer to my letter of inquiry, ninety-one per cent. of the bank presidents were in favor of Federal regulation of insurance, while seventy-two per cent. held insurance to be commerce, or an element or instrumentality thereof.

These are but a few illustrations of the expression of public opinion which I have collected to satisfy myself and others that the movement for Federal regulation of insurance is a national one and that it has the hearty and emphatic support of the interests specifically affected, as well as of the large mass of our population generally. I may add that of a large number of prominent policyholders, holding life insurance policies of not less than \$25,000, and in the aggregate approximately \$75,000,000 of insurance, and being therefore vitally and financially interested in all that pertains to the solvency and economical management of the companies, ninety-two per cent. expressed themselves in favor of Federal regulation of insurance, while eighty per cent. of this class held insurance to be commerce or an instrumentality thereof. I am, therefore, not aware of any measure which may come before Congress for serious and earnest consideration which has so fully and heartily the endorsement of intelligent public opinion. And I do not hesitate to say that it is my belief that if the proposition could be submitted to a popular vote, or if an expression of opinion could be secured from the vast mass of policyholders of all branches of insurance, the verdict would be practically unanimous in favor of the enactment of a Federal law regulating interstate insurance transactions.

Any new legislative proposition must, as a matter of

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course, be framed or designed to stand the final test of constitutionality when interpreted by our court of last resort. Some very plausible reasons have been advanced to show that the proposed Federal regulation of interstate insurance transactions would not be within the powers granted by the Constitution, and in particular not within the meaning of the commerce clause of that instrument. Objections of this kind are properly entitled to serious consideration, but it is well to keep in mind that similar objections have been raised against most of the great measures which have come before Congress for consideration at nearly every session from the very foundation of our government. Nor could it well be otherwise. The Constitution is not a legal code, but a written instrument, general in its terms, every provision of which is, and will ever remain, subject to interpretation by the Supreme Court as cases or conditions arise which may make this necessary. The Constitution is intended to endure and meet our needs for all time, and, from Marshall down, the interpretation of the different clauses has, as a rule, been in a spirit of broad construction, to give to this government the character of a nation and not merely that of a federation of States.

Constitutional objections, as I have said, have been raised against most of the measures and legislative acts which have received consideration by Congress and to which we owe our growth and development as a nation. Washington had hardly issued his famous declaration of neutrality, which, without doubt, saved this country from a disastrous war, when bitter accusations were made against him of an unwarranted exercise of his powers. Washington was opposed by Madison but sustained by Marshall, and the verdict of history is read in the language of Justice Story,* that "Probably at the present day (1835) not a single statesman can be found of any influence, in any party, who does not deem

* John Marshall, *Life, Character and Judicial Services*, by John F. Dillon, vol. III, pp. 350-353.

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the measure to have been as well founded in constitutional law as in sound policy." Jay had no sooner completed his treaty with England than the point was raised, and sustained by apparently irrefutable arguments, that the treaty was unconstitutional and that Congress did not have the power to ratify it. In fact, it was maintained that "The negotiation of a commercial treaty by the Executive was an infringement of the Constitution and a violation of the power given to Congress to regulate commerce." In all the many and perplexing questions which have agitated our nation from time to time, the point of constitutionality in legislative enactments has invariably been brought forward. This is true, for illustration, of the controversy relating to the assumption of State debts, the several embargo acts, the enforcement act, the bank charter, the militia question, territorial extension and the creation of new States, the conscription scheme, and many other controversies and disputes. The point of constitutionality was raised in the Missouri compromise, and was not settled by a decree of the Supreme Court until thirty-five years later. The great question of internal improvements, than which, perhaps, not one during the earlier years of our national existence was of greater importance, was bitterly fought upon the ground of constitutionality, and had the narrow spirit of constitutional construction been successful we should be very far from having attained our present imposing position. Bitter, again, was the constitutional struggle over the tariff laws, which, it was held, should be passed solely for the purpose of raising revenue and not for the purpose of protection, but, fortunately for the best interests of the people and the nation, the narrow spirit was set aside by the broad principles of a liberal construction of the Constitution as an instrument designed to meet our needs as a nation and not merely as a federation of States.

Similar constitutional objections have been raised against

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the enactment of a Federal insurance law. It is pointed out that there have been a number of decisions of the Supreme Court to the effect that insurance is not commerce, and that, therefore, Congress has no power over interstate insurance transactions. The fact is overlooked, or not fully considered, that the subject has never been presented to the Court upon an issue raised under a Federal statute, and that the cases which have been decided have only an indirect bearing upon the point here in view, and do not warrant a negative policy of action on the part of Congress any more than corresponding objections have prevented action in other cases. The Supreme Court itself would not render an advance opinion upon the subject, so it cannot be held to be the duty of a member of Congress to be influenced by mere theoretical speculations of lawyers and laymen.

As a matter of fact, it is a well-established principle of the judiciary department that "Every statute is considered valid as long as there is any reasonable interpretation by which it may be held so. The Legislature is presumed to have acted within its powers, and only the strongest proofs to the contrary are sufficient to nullify its act. Congress must wantonly go very far outside the plain meaning of the Constitution before the Court will interfere to prevent the operation of the law." In the case of *Fletcher vs. Peck* (6 Cranch, 87), Marshall stated the preponderance of proof which shall be necessary to justify the Court in ignoring an act of the Legislature. He said: "The question, whether a law be void for its repugnancy to the Constitution, is at all times a question of delicacy, which ought seldom, if ever, to be decided in the affirmative in a doubtful case. The Court, when impelled by duty to render such a judgment, would be unworthy of its station could it be unmindful of the solemn obligations which that station implies. But it is not on slight implication or vague conjecture that the Legislature is to be pronounced to have transcended its powers, and

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its Acts to be considered as void. The opposition between the Constitution and the law should be such that the judge feels a clear and strong conviction of their incompatibility with each other."

Now, I would be unmindful of my own duty in this respect and my own sacred oath of office as a Senator of the United States to support the Constitution, if I had not made every reasonable effort to convince myself by the necessary evidence that the facts in the case, the indisputable facts gathered from every trustworthy source, sustain the theory of this proposition and emphasize its practical importance as a national necessity. It is also well to keep in mind that the Supreme Court itself has very seldom been a unit in decisions upon the constitutional interpretation of the commerce clause, and the legislative department could hardly be expected to be unanimous upon a question upon which the Court itself has as a rule been divided.* In nearly every case which has been before the Court regarding the power of Congress over interstate and foreign commerce at least one, and in many cases several dissenting opinions have been filed. The Constitution gives the Federal government specific power over post-offices and post-roads, over patents and copyrights, over bankruptcy, and over commerce in the broadest possible sense of the word. By implication, and not by specific enumeration, Congress has established a system of lighthouses and erected custom-houses, has authorized a coast survey and a survey of rivers and harbors, has created a bank and developed our national banking system, and, as confirmed by decisions of the Supreme Court under the commerce clause, Congress has power and control over railways, telegraphs, express companies, and even over lottery tickets.

The Constitution has met our needs in the past, and will, without question, meet our needs in the future. Interpreted,

* James S. Rogers, on the Exclusiveness of the Power of Congress over Interstate and Foreign Commerce, in the *American Law Register*, September and October, 1905.

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as it has been, in a broad and liberal spirit, there is every reason to hope that the plain necessities of the situation will justify a favorable opinion if the case of insurance should come before the Supreme Court. That insurance in everyday language is an element and instrumentality of commerce is established by every treatise on commercial law and usage, by every dictionary of commerce, and by the consensus of public opinion which I have taken pains to secure upon this point. Insurance is to-day, as it has been for centuries, a part of the law merchant of the principal commercial nations, and in every important country except ours insurance is the subject of regulation by the national or supreme government. I rely with confidence upon the theory of broad constitutional construction in this as in all matters of doubtful constitutionality which vitally affect our national welfare.*

In the admirable and never-to-be-forgotten words of Chief Justice Marshall: "To say that the intention of the instrument must prevail; that this intention must be collected from its words; that its words are to be understood in the sense in which they are generally used by those for whom the instrument was intended; that its provisions are neither to be restricted into insignificance nor extended to objects not comprehended in them nor contemplated by its framers, is to repeat what has already been said more at large and is all that can be necessary." And in passing upon the constitutionality of the law creating a United States bank, Marshall gave utterance to words which have been so often repeated that they have become an axiom in our constitutional history, namely: "Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consistent with the letter and spirit of the

* *Lex Mercatoria Rediviva*, or, *The Merchant's Directory*, by Wyndham Beawes, London, 1752; article, "Insurance," p. 261.

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Constitution, are constitutional.”* When we consider the enormous extent of insurance, how it affects every commercial and private interest, how it enters every home from one end of the land to the other, how it sustains individual effort, enhances individual credit, and provides security against possible contingencies not to be guarded against by any other means yet devised, I question if the ingenuity of man could invent or design another method so completely within the spirit of our nationality and an interest of such supreme importance to the people of this land.

A Federal insurance law will not deprive the States of any rights specifically reserved to them under the tenth amendment. The States, under the bill introduced by me, will retain all the rights and powers over their own corporations which constitutionally belong to them, but the bill will put an end to the multiform system of State supervision and regulation over insurance corporations, which has no justification in any sound theory of constitutional rights or in any common-sense conception of State duty. The bill will put an end to interstate chaos and terminate an intolerable condition of affairs jeopardizing the interests and at times the very existence of companies transacting interstate business. The bill will place insurance companies upon a national basis and give to the business a national character. The bill will bring insurance companies engaged in interstate business under the regulation of the Federal government, and provide a system of supervision and examination, thorough, exacting and complete. The bill will increase the value of every form of insurance, materially enhance the security of the policyholders, and broaden the field of business operations to an extent impossible under the present system of supervision and control by some fifty different States and Territories. The States will continue to supervise insurance corporations of their own creation, but they will be deprived

* Marshall's Complete Constitutional Decisions, annotated by John M. Dillon; Chicago, 1903.

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of power to supervise corporations of other States and to legislate regarding them, chiefly for the purpose of raising revenue or of harassing the companies by vexatious statutory requirements. It is not a theory, but a condition, which confronts the companies and their policyholders, who in their aggregate capacity represent the nation and not individual States. The policyholder is primarily and chiefly interested in the security and value of his contract, in the rate of premium which he pays, and in the safe and economical administration of the company with which he insures. It is not a question with him whether the company is located in the particular State in which he lives, or in some other State. As a life insurance policyholder living to-day in one State, he may to-morrow live in another, but his contract of insurance goes with him, and protects and sustains him in the event of calamity or loss. It is not a theory that this business is national in extent and character, but an incontrovertible fact readily within the comprehension of any one who will carefully consider the vast extent of the business operations and the true character of insurance transactions. It is upon this ground that the advocates of Federal supervision rest their arguments and anticipate a favorable ruling from the Supreme Court in the event of the constitutionality of a law to this effect being brought to a test.

This great interest is entitled to recognition by the Federal government. It needs the government's prudent, consistent and effective supervision. It is not confined in its operations even to the limits permitted to our flag. It is inseparably interwoven with our national prosperity on land and sea. Until this question is disposed of wisely and permanently it is a matter that will not be laid at rest.

CHAPTER XI

**THE-AMERICAN TYPE
OF
ISTHMIAN CANAL**


**SPEECH IN
THE SENATE OF THE UNITED STATES
JUNE 14, 1906**

THE AMERICAN TYPE OF ISTHMIAN CANAL

"It is a subject upon which opinions will differ and upon which honest convictions may be widely at variance, but in a question of such surpassing importance to the nation, I, for one, shall side with those who take the American point of view, place their reliance upon American experience, and show their faith in American engineers."

The Senate having under consideration the bill (S. 6191) to provide for the construction of a sea-level canal connecting the waters of the Atlantic and Pacific oceans, and the method of construction—

Mr. Dryden said:

R. PRESIDENT: the Panama Canal problem has reached a stage where a decision should be made to fix permanently the type of the waterway, whether it shall be a sea-level or a lock canal. An immense amount of evidence on the subject has in the past and during recent years been presented to Congress. An overwhelming amount of expert opinion has been collected, and an International Board of Consulting Engineers has made a final report to the President, in which experts of the highest standing divide upon the question. The Senate Committee on Interoceanic Canals has likewise divided. It is an issue of transcendent importance, involving the expenditure of an enormous sum of money, and political and commercial consequences of the greatest magnitude, not only to the American people, but to the world at large.

The report of the International Board has been printed and placed before Congress. A critical discussion of the facts and opinion presented by this Board, all more or less of a technical and involved nature, would unduly impose upon the time of the Senate at this late day of the session. In addition, there is the testimony of witnesses called before the Senate committee, which has also been printed in three large volumes, exceeding 3,000 pages of printed matter. To

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properly separate the evidence for and against one type of canal or the other, to argue upon the facts, which present the greatest conflict of engineering opinion of modern times, would be a mere waste of effort and time, since the evidence and opinions are as far apart and as irreconcilable as the final conclusions themselves. It is, therefore, rather a question which the practical experience and judgment of members of Congress must decide, and I have entire confidence that the will of the nation, as expressed in its final mandate, will be carried into successful execution, whether that mandate be for lock canal or sea-level waterway.

The Panama Canal presents at once the most interesting and the most stupendous project of mankind to overcome by human ingenuity "what Nature herself seems to have attempted, but in vain." From the time when the first Spanish navigators extended their explorations into every bay and inlet of the Central American isthmus, to discover, if possible, a short route to the Indies, or "from Cadiz to Cathay," the human mind has not been willing to rest content and accept as insurmountable the natural obstacles on the Isthmus which prevent uninterrupted communication between the Atlantic and the Pacific. Excepting, possibly, Arctic explorations, in all the romantic history of ancient and modern commerce, in all the annals of the early navigators and explorers, there is no chapter that equals in interest the never ceasing efforts to make the Central American isthmus a natural highway for the world's commerce—a direct route of trade and transportation from the uttermost East to the uttermost West.

As early as 1536 Charles V ordered an exploration of the Chagres River to learn whether a ship canal could not be substituted for an existing wagon road, and Philip II, in 1561, had a similar survey made in Nicaragua for the same purpose. From that day to this the greatest minds in commerce and engineering have given their attention to the

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problem of an interoceanic waterway; every conceivable plan has been considered, every possible road has been explored, and every mile of land and sea has been gone over to find the best and most practical solution of the problem.

The history of these early attempts is most interesting, but it is no longer of practical value, for it has no direct bearing upon present-day problems. Most of the efforts were wasted, and many of them were ill advised, but the present can profitably consider the more important lessons of the past. It was written in the book of fate that this enterprise, the most important in the world of commerce and navigation, should be American in its ending as it had been in its practical beginning. From the day when the first train of cars crossed the Isthmus from Panama to Aspinwall, to facilitate the transportation of passengers and freight across the narrow belt of land connecting the northern and southern continents, the imperative necessity of a ship canal was made apparent. Just as that railway followed the earlier wagon roads of the Spanish adventurers, so a ship canal will naturally succeed or supplement the railway.

Natural conditions on the Isthmus materially enhance the physical difficulties to be overcome in canal construction. Even the precise locality or section best adapted to the purpose has for many years been a question of serious doubt. The Isthmus of Tehuantepec, the Nicaraguan route, the utilizing of a lake of large extent, and finally the narrow band of land and mountain chain at Panama, each offers distinct advantages peculiar to itself, with corresponding disadvantages or local difficulties not met with in the others. Many other projects have been advanced; in all, at least some twenty distinct routes have been laid out by scientific surveys, but the most eminent American engineering talent, considering impartially the natural advantages and local obstacles of each, finally, in 1849, decided upon the isthmus between the Bay of Panama and Limon

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Bay as the most feasible for the building of the railroad, and some fifty years later for the building of the Isthmian Canal. Every further study, survey, and inquiry has confirmed the wisdom of the earlier choice, which has been adopted as the best and as the permanent plan of the American government, which is now to build a canal at the expense of the nation, but for the ultimate benefit of all mankind.

The Panama railway marked the beginning of a new era in the history of interoceanic communication. The great practical usefulness of the road soon made the construction of a canal a commercial necessity. The eyes of all the world were upon the Isthmus, but no nation made the subject a matter of more profound study and inquiry than the United States. One surveying party followed another, and every promising project received careful consideration. The conflicting evidence, the great engineering difficulties, the natural obstacles, and, most of all, the Civil War, delayed active efforts; but public interest was maintained and the general public continued to view the project with favor and to demand an American canal.

During the seventies a French commission made surveys and investigations on the Isthmus which terminated in the efforts of De Lesseps, who undertook to construct a canal, and, in 1879, called an international scientific congress to consider the project in all its aspects and determine upon a practical solution. The United States was invited to be represented by two official delegates, and accordingly President Hayes appointed Admiral Ammen and A. C. Menocal, of the United States Navy, both of whom had been connected with surveys and explorations on the Isthmus. Mr. Menocal presented his plan for a canal by way of Nicaragua, but it was evident that the Wyse project, of a canal by way of the Isthmus of Panama, had the majority in its favor, and the only question to determine was whether the canal to be constructed should

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be a sea-level or a lock canal. The American delegates were convinced, in the light of their knowledge and experience, that a sea-level canal would be impracticable, if not impossible. In this they were seconded by Sir John Hawkshaw, a man thoroughly familiar with canal problems, and who exposed the hopelessness of an attempt to make a sea-level ship canal, pointing out that there would be a cataract of the Chagres River at Matachin of 42 feet, which in periods of floods would be 78 feet high, and a body of water that would be 36 feet deep, with a width of 1,500 feet.

Opposition to the sea-level project proved of no avail. The facts were ignored or treated with indifference by the French, who were determined upon a canal at Panama and at sea level, resting their conclusions upon the success at Suez, with which enterprise many of those present at the congress, in addition to De Lesseps, had been connected. But the problems and conditions to be met on the Isthmus of Panama were decidedly different from those at Suez, and subsequent experience proved the serious error of the sea-level plan as finally adopted. The congress included a large assemblage of non-professional men, and of the French engineers present only one or two had ever been on the Isthmus. The final vote was seventy-five in favor of and eight opposed to a sea-level canal. Rear-admiral Ammen said: "I abstained from voting on the ground that only able engineers can form an opinion *after careful study* of what is actually possible and what is relatively economical in the construction of a ship canal." Of those in favor of a sea-level canal not one had made a practical and exhaustive study of the facts. The project at this stage was in a state of hopeless confusion. In spite of these obstacles, De Lesseps, with undaunted courage, proceeded to organize a company for the construction of a sea-level canal.

As soon as possible after the adjournment of the scientific congress of 1879 the Panama Canal Company was organized,

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with Ferdinand De Lesseps as president. The company purchased the Wyse concession, and by 1880 sufficient funds had been secured to proceed with the preliminary work. The next two years were used for scientific investigations, surveys, etc., and the actual work commenced in 1883. The plan adopted was for a sea-level canal having a depth of 29.5 feet and a bottom width of 72 feet. This plan in outline and intent was adhered to practically to the cessation of operations in 1888.

In that year operations on the Isthmus came to an end for want of funds. The failure of the company proved disastrous to a very large number of shareholders, mostly French peasants of small means, and for a time the project of interoceanic communication by way of Panama seemed hopeless. The experience, however, proved clearly the utter impossibility of private enterprise carrying forward a project of such magnitude and which had attained a stage where large additional funds were needed to make good enormous losses, due to errors in plans, to miscarriage of effort, and, last but not least, to fraud on a stupendous scale. With admirable courage, however, the affairs of the first Panama Canal Company were reorganized, after the appointment of a receiver, on February 4, 1889. A scientific commission of inquiry was appointed to reinvestigate the entire project and report upon the work actually accomplished and its value in future operations. The commission, made up of eminent engineers, sent five of its members to the Isthmus to study the technical aspects of the problem, and a final report was rendered on May 5, 1890. The recommendation of the commission was for the construction of a canal with locks, the abandonment of the sea-level idea, and for a further and still more thorough inquiry into the facts, upon the ground that the accumulated data were "far from possessing the precision essential to a definite project." This took the project of canal construction out of the domain of

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preconceived ideas based upon guesswork into the substantial field of a scientific undertaking for commercial purposes. The receiver at once commenced to reorganize the affairs of the company, and accordingly, on October 21, 1894, the new Panama Canal Company came into existence under the general laws of France. The charter of the new company provided for the appointment of a technical committee to formulate a final project for the completion of the canal. This committee was organized in February, 1896, and reached a unanimous conclusion on November 16, 1898, embodied in an elaborate report, which is probably the most authoritative document ever presented on an engineering subject. The recommendation of the commission was unanimously in favor of a lock canal.*

The subsequent history of the De Lesseps project and the American effort for a practicable route across the Isthmus are still fresh in our minds and need not be restated. The Spanish-American war and the voyage of the *Oregon* by way of Cape Horn, more than any other causes, combined to direct the attention of the American people to conditions on the Isthmus, and led to the public demand that by one route or another an American waterway be constructed within a reasonable period of time and at a reasonable cost. It will serve no practical purpose to recite the subsequent facts and the chain of events which led to the passage of the act of March 3, 1899, which authorized the President to have a full and complete investigation made of the entire subject of Isthmian canals.

A million dollars was appropriated for the expenses of a commission, and in pursuance of the provisions of the act the President appointed a commission consisting of Rear-admiral Walker, United States Navy, president, and nine members eminent in their respective professions as experts or engineers. A report was rendered under the date of November 30, 1901, in which the cost of constructing a canal by way of

* Report of the New Panama Canal Company of France; Senate Document 188, 56th Congress, 1st session, February 20, 1900.

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Nicaragua was estimated at \$189,864,062 and by way of Panama at \$184,233,358, including in the last estimate \$40,000,000 for the estimated value of the rights and property of the New Panama Canal Company. The company, however, held its property at a much higher value, or some \$109,000,000, which the Commission considered exorbitant, and thus the only alternative was to recommend the construction of a canal by way of the Nicaraguan route. Convinced, however, that the American people were in earnest, the New Panama Company expressed a willingness to reconsider the matter, and finally agreed to the purchase price fixed by the Isthmian Commission.

By the Spooner act, passed June 28, 1902, Congress authorized the President to purchase the property of the New Panama Canal Company for a price not exceeding \$40,000,000, the title to the property having been fully investigated and found valid. The Isthmian Commission, therefore, recommended to Congress the purchase of the property, but the majority of the Senate Committee on Inter-oceanic Canals disagreed, and it is only to the courage and rare ability of the late Senator Hanna and his associates, as minority members of the committee, that the nation owes the abandonment of the Nicaraguan project, the acquirement of the Panama Canal rights at a reasonable price and the making of the project a national enterprise.

The report of the minority members of the Senate committee was made under date of May 31, 1902. It is, without question, a most able and comprehensive dissertation upon the subject, and forms a most valuable addition to the truly voluminous literature of Isthmian canal construction. The report was signed by Senators Hanna, Pritchard, Millard, and Kittredge. "We consider," said the committee, "that the Panama route is the best route for an Isthmian canal to be owned, constructed, controlled, and protected by the United States." It was a bold challenge of the conclusions of the

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majority members of the committee, but in entire harmony with and in strict conformity to the views and final conclusions of the Isthmian Commission. The minority report was accepted by the Congress and a canal at Panama became an American enterprise for the benefit of the American people and the world at large.

Such, in broad outline, is the present status of the Panama Canal. A grave question presents itself at this time, which demands to be disposed of by Congress, and to which all others are subservient. Shall the waterway be a sea-level or a lock canal? It is a question of tremendous importance—a question of choice equally as important as the one of the route itself. A choice *must* be made, and it must be made soon. All the subsidiary work, all the related enterprises, depend upon the fundamental difference in type. Opinions differ as widely to-day as they did at the time when the project was first considered by the international committee in 1879. Engineers of the highest standing at home and abroad have expressed themselves for or against one type or the other, but it is a question upon which no complete agreement is possible. In theory a sea-level canal has unquestionable advantages, but, practically, the elements of cost and time necessary for the construction preclude to-day, as they did in 1894, when the New Canal Company recommenced active operations, the building of a sea-level canal. It is *not a question of the ideally most desirable, but of the practically most expedient*, that confronts the American people and demands solution.

The New Panama Canal Company had approved the lock plan, which placed the minimum elevation of the summit level at 97.5 feet above the sea and the maximum level at 102.5 feet above the same datum. In the words of Prof. William H. Burr:

It provided for a depth of 29.5 feet of water and a bottom width of canal prism of about 98 feet, except at special places, where this width was increased. A dam was to be built near Bohio, which would thus form an artificial lake,

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with its surface varying from 52.5 to 65.6 feet above the sea. The location of this line was practically the same as that of the old company. The available length of each lock chamber was 738 feet, while the available width was 82 feet, the depth in the clear being 32 feet 10 inches. The lifts were to vary from 26 to 33 feet. It was estimated that the cost of finishing the canal on this plan would be \$101,850,000, exclusive of administration and financing.

The Isthmian Commission of 1899-1901 considered the project, re-examined into the facts, and as stated by Professor Burr—

The feasibility of a sea-level canal, but with a tidal lock at the Panama end, was carefully considered by the Commission, and an approximate estimate of the cost of completing the work on that plan was made. In round numbers this estimated cost was about \$250,000,000, and *the time required to complete the work would probably be nearly or quite twice that needed for the construction of a canal with locks.* The Commission therefore adopted a project for the canal locks. Both plans and estimates were carefully developed in accordance therewith.

Professor Burr, *now* in favor of a sea-level canal, *then* concurred in the report in favor of a lock canal.

Since the Panama canal became the property of the nation a vast amount of necessary and preliminary work has been done preparatory to the actual construction of the canal. A complete civil government of the Canal Zone has been established, an army of experts and engineers has been organized, the work of sanitation and police control is in excellent hands, and the Isthmus, or, more properly speaking, the Canal Zone, is to-day in a better, cleaner, and more healthful condition than at any previous time in its history. A considerable amount of excavation and necessary improvements in transportation facilities have been carried to a point where further work must stop until the Isthmian Commission knows the final plan or type of the canal. The reports which have been made of the work of the Commission during its two years of actual control are a complete and affirmative answer to the question whether what has been done so far has been done wisely and well, and the facts and evidence prove that the present state of affairs on the Isthmus is in all respects to the credit of the nation.

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Now, it is evident that the question of plan or type of canal is largely one for engineers to determine, but even a layman can form an intelligent opinion, without entering into all the details of so complex a problem as the relative advantage or disadvantage of a sea-level versus a lock canal. This much, however, is readily apparent, that a sea-level canal will cost a vast amount of money and may take twice the time to build, while it will not necessarily accommodate a larger traffic or ships of a larger size. A lock canal can be built which will meet all requirements; it can be built deep enough and wide enough to accommodate the largest vessels afloat; it can be so built that transit across the Isthmus can be effected in a reasonably short period of time—in a word, it is a practical project, which will solve every pending question involved in the construction of a transisthmian canal in a practical way, at a reasonable cost, and within a reasonable period of time.

To determine the question the President appointed an International Board of Consulting Engineers. The Board included in its membership the world's foremost men in engineering science, and the report is without question a most valuable document. The President, in his address to the members of the Board on September 11, 1905, outlined his views with regard to the desirability of a sea-level canal, if such a one could be constructed at a reasonable cost within a reasonable time. He said—

If to build a sea-level canal will but slightly increase the risk and will take but little longer than a multilock high-level canal, this, of course, is preferable. But if to adopt the plan of a sea-level canal means to incur great hazard and to incur indefinite delay, then it is not preferable.

The problem as viewed by the American people could not be more concisely stated. Other things equal, a sea-level canal, no doubt, would be preferable; but it remains to be shown that such a canal would in all essentials provide safe, cheap, and earlier navigation across the Isthmus than a lock canal.

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For, as the President further said on the same occasion, there are two essential considerations: First, the greatest possible speed of construction; second, the practical certainty that the proposed plan will be feasible; that it can be carried out with the minimum risk; and in conclusion that—

There may be good reason why the delay incident to the adoption of a plan for an ideal canal should be incurred; but if there is not then I hope to see the canal constructed on a system which will bring to the nearest possible date in the future the time when it is practicable to take the first ship across the Isthmus—that is, which will in the shortest time possible secure a Panama waterway between the oceans of such a character as to guarantee permanent and ample communication for the greatest ships of our Navy and for the largest steamers on either the Atlantic or the Pacific. The delay in transit of the vessels owing to additional locks would be of small consequence when compared with shortening the time for the construction of the canal or diminishing the risks in the construction. In short, I desire your best judgment on all the various questions to be considered in choosing among the various plans for a comparatively high-level multilock canal, for a lower-level canal with fewer locks, and for a sea-level canal. Finally, I urge upon you the necessity of as great expedition in coming to a decision as is compatible with thoroughness in considering the conditions.

The Board organized and met in the city of Washington on September 1, 1905, and on the 10th of January, 1906, or about four months later, made its final report to the President through the Secretary of War. The Board divided upon the question of type for the proposed canal, a majority of eight—five foreign engineers and three American engineers—being in favor of a canal at sea-level, while a minority of five—all American engineers—favored a lock canal at a summit level of 85 feet. The two propositions require separate consideration, each upon its own merits, before a final opinion can be arrived at as to the best type of a waterway adapted to our needs and requirements under existing conditions.

Upon a question so involved and complex, where the most eminent engineers divide and disagree, a layman cannot be expected to view the problem otherwise than as a business proposition which, demanding solution, must be disposed of by a strictly impartial examination of the facts. Weighed and tested by practical experience in other fields of commercial enterprise, it is probably not going too far to say, as

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in fact it has been said, that there is entirely too much mere engineering opinion upon this subject and not a well-defined concentrated mass of data and solid convictions. It is equally true, and should be kept in mind, that the time given by the Board to the consideration of the subject in all its practical bearings, including an examination of actual conditions on the Isthmus, was limited to so short a period that it would be contrary to all human experience that this report should represent an infallible or final verdict for or against either of the two propositions.

It is necessary to keep in mind certain facts which may be concisely stated, and which I do not think have been previously brought to the attention of Congress. While the Board had been appointed by the President on June 24, 1905, the first business meeting did not take place until September 1, and the final meeting of the full Board occurred on November 24th of the same year. This was the twenty-seventh meeting during a period of eighty-five days, after which there were three more meetings of the American members, the last having been held on January 31, 1906. Thus the actual proceedings of the full Board were condensed into twenty-seven meetings during less than three months, a part of which time—or, to be specific, six days—was spent on the Isthmus.

The minutes of the proceedings have been printed and form a part of the final report made to the President under date of January 10, 1906. They do not afford as complete an insight into the business transactions of the Board as would be desirable, and the evidence is wanting that the subject was as thoroughly discussed in all its details, with particular reference to the two propositions of a sea-level or a lock canal, as would seem necessary. Very important features necessary to the sea-level plan were treated in the most superficial way, guessed at, or wholly ignored. I do not hesitate to say that no banking house in the world called

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upon to provide funds necessary for an enterprise of this magnitude as a private undertaking would advance a single dollar upon a project as it is here presented by the majority of the Board to the American Congress as the final conclusion of engineers of the highest standing. The Board, as I have said, divided upon the question, and by a majority of eight pronounced in favor of a sea-level against a minority of five in favor of a lock canal. Let us inquire how this conclusion, of momentous importance to the nation, was arrived at and whether the minutes of the Board furnish a conclusive answer.

As early as the sixth meeting, or on September 16th—that is, after the Board had been only fifteen days in existence—a resolution was introduced by Mr. Hunter, chief engineer of the Manchester Ship Canal, requesting that a special committee be appointed to prepare at once a project for a sea-level canal.

Mr. Spooner.—What was the date of the resolution with respect to the lock canal?

Mr. Dryden.—October 3d, seventeen days afterwards.

In marked contrast, it was not until after the Board had visited the Isthmus and while the members were on their way home—that is, at sea—on October 3d, that, on motion of Mr. Stearns, a corresponding committee was appointed to prepare plans for a lock canal. The recital of dates is of very considerable importance, for it is evident that there was a decided and early preference on the part of certain members of the Board for a sea-level canal, and that to this particular project more attention was given and a more determined attempt was made to secure data in its defense than to the corresponding project for a lock canal. That is to say, while the special committee for the consideration of a sea-level canal had been appointed on September 16, the corresponding committee to consider the lock project was not appointed until October 3d, or seventeen

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days later, with the additional disadvantage of the Board being on the ocean, with no opportunity to send for persons and papers during the short period of time remaining to take into due consideration all the facts pertaining to a lock canal, for, as I have said before, the last business meeting was held on November 24th.

Mr. Foraker.—Mr. President—

The Vice President.—Does the Senator from New Jersey yield to the Senator from Ohio?

Mr. Dryden.—Certainly.

Mr. Foraker.—I would like to ask the Senator whether on the 16th of September, when this motion was made by Mr. Hunter, if I remember correctly, the Board of Engineers had completed their investigations and explorations on the Isthmus? I did not observe.

Mr. Dryden.—No.

Mr. Kittredge.—Mr. President—

The Vice President.—Does the Senator from New Jersey yield to the Senator from South Dakota?

Mr. Dryden.—I yield.

Mr. Kittredge.—If the Senator from New Jersey will permit me, I will be glad to answer the question of the Senator from Ohio. The Board of Consulting Engineers sailed from New York on the 28th of September for the Isthmus and returned about the middle or 20th of October.

Mr. Foraker.—Sailed from the Isthmus?

Mr. Kittredge.—Sailed from New York for the Isthmus.

Mr. Foraker.—Then the motion was made by Mr. Hunter before the Board of Engineers left the United States.

Mr. Kittredge.—Certainly; to appoint a committee of investigation.

Mr. Dryden.—I should like to say at this point that while I have gladly yielded to Senators, I think it is quite probable that before I get through I shall cover any questions that may be asked. I would prefer to complete my remarks,

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and then I shall be very glad to answer any questions that Senators may choose to ask.

Mr. Foraker.—I beg pardon.

Mr. Dryden.—I was glad to yield to the Senator.

Mr. Foraker.—The speech is a very interesting one.

Mr. Dryden.—There is nothing in the minutes of the Board which disclosed that either proposition received the necessary deliberate consideration of the extremely complex and important details entering into the two respective projects, but it is evident that, regarding the sea-level proposition at least, there was a decided bias practically from the outset which matured in the majority report favoring that proposition. What was in the minds of the members, what was done outside of the Board meetings, by what means or methods conclusions were reached, has not been made a matter of record and is not, therefore, within the knowledge of Congress.

It is true that the respective reports of the two committees were brought before the Board as a whole on November 14th and that the subject was discussed at some length on November 18th, when each member of the Board expressed his views for or against one of the two projects. But there remained only ten days before the last business meeting of the Board was held, when the foreign members sailed for home. The final reports, as they are now before Congress, apparently never received the proper and extended consideration of the Board as a whole, and the minority report favoring a lock canal seems never to have been discussed upon its merits at all. When I recall the very different procedure of the technical commission appointed by the New Panama Canal Company, which extended its consideration of the subject from February 3, 1896, to September 8, 1898, during which time ninety-seven stated meetings and a large number of informal meetings were held, I say, it seems to me, from a practical business point of view,

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casting no reflection upon either the ability or the fairness of judgment of the members of the International Board, that the mere element of time should weigh decidedly in favor of the verdict of the technical commission of 1898, which was unanimous for a lock canal.

Of the technical commission of 1896-1898, Mr. Hunter, chief engineer of the Manchester Ship Canal, was a member, and he at that time, without a word of dissent, joined the other members in giving the unanimous and emphatic expression of the committee in favor of a lock canal.

Mr. Teller.—Mr. President—

The Vice President.—Does the Senator from New Jersey yield to the Senator from Colorado?

Mr. Dryden.—Certainly.

Mr. Teller.—Will the Senator kindly repeat the date of that?

Mr. Dryden.—Of the technical commission of 1896-1898, Mr. Hunter, the chief engineer of the Manchester Canal, was a member. The technical commission was of the new French company.

Mr. Teller.—You refer to the commission of the new French company?

Mr. Dryden.—Yes, sir; the commission of the new French company.

Why he should now change his views and convictions and why he should now be so emphatic and pronounced in favor of a sea-level project is not set forth in anything that has been printed or been communicated to the Senate Committee on Interoceanic Canals. This hurried action, this scanty consideration, as I have stated, is the foundation upon which the advocates of the sea-level plan rest their appeal for support. This is the report and the evidence upon which Congress is requested to pronounce in favor of a sea-level project and give its indorsement to a plan which will involve the country in at least \$100,000,000 of additional expendi-

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ture and which will delay the opening of the canal for practical purposes of navigation possibly for ten years or more after the lock canal can be finished and opened for use.

The Isthmian Commission restates certain points in a clear and precise way, which leaves no escape from the conclusion that both as to time and cost the majority members of the Board materially underestimated important factors, and that they have every reason to believe that the total estimate of cost of a sea-level canal should be raised to \$272,000,000, and that the estimate of time for construction should be increased to at least fifteen and a half years. But under certain readily conceivable conditions it is practically certain that the construction of a sea-level canal will consume not less than twenty years.

The Isthmian Commission re-examined carefully the question of relative efficiency of the proposed sea-level canal compared with a lock canal, and they pronounce emphatically and unequivocally in favor of the lock project. They consider that the assumed danger from accidents to locks by passing vessels or otherwise is greatly exaggerated, and hold that while no doubt accidents may occur, and possibly will occur, such dangers can and will be sufficiently guarded against by an effective method of supervision and control. They hold that a lock canal properly constructed and managed is in no sense a menace to the safety of vessels, and that much practical experience and particularly the half-century of successful operation of the "Soo" Canal have demonstrated the contrary beyond dispute. They point out that the canal with locks at a level of 85 feet will be a waterway three times the size, in navigable area, of the projected sea-level canal, and, omitting the locks from consideration, will therefore afford three times the shipping facilities.

They show that in the sea-level canal there will be many and serious curves, while in the lock canal the courses are straight and changes of direction will be made at intersecting

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tangents, the same as in our river navigation, in which serious accidents are practically unknown. They show that the courses in a lock canal can be marked with ranges which will greatly facilitate navigation, particularly at night. The Commission points out that the argument of the majority of the Board, that locks will limit the traffic capacity of the canal, carries very little if any weight, and they refer to the experience of the "Soo" Canal, through which there passes annually a larger traffic than through all the other ship canals of the world combined.

Finally, the Isthmian Commission discusses the cost of operation and maintenance. The majority of the Board submit no details upon this most important item in canal construction and subsequent operation. What banking house in the world would advance a single dollar upon a canal or railway project upon a mere statement of the probable ultimate cost, but with no corresponding information as to cost of maintenance and operation! Having been appointed to re-examine into all the facts, and, so to speak, to reconsider the entire project, the majority seriously erred in omitting from their report the necessary data and calculations for an accurate and trustworthy estimate of the cost of operation and maintenance of a sea-level canal.

From this point of view and in the light of the facts as presented by the Board for or against either project, the Isthmian Commission could not consistently act otherwise than to give their final approval to the more specific and practical recommendations of the minority members of the Board, and they properly say that "*it appears that the canal proposed by the minority of the Board of Consulting Engineers can be built in half the time and for a little more than half of the cost of the canal proposed by the majority of the Board.*" They advance a number of specific reasons why a lock canal when completed will for all practical purposes—commercial, military, and naval—be a better canal than a sea-level waterway

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with a tidal lock, as proposed by the majority members of the Board.

The report of the Board was carefully and critically examined by **Chief Engineer Stevens**, of the Isthmian Commission and in actual charge of engineering matters on the Isthmus. Mr. Stevens is a man of very large practical American engineering experience, and he adds to the findings of the Commission the weight of his authority, decidedly and unequivocally in favor of a lock canal. He states as the sum of his conclusions that, all things considered, the lock or high-level canal is preferable to the sea-level type, so-called, for the reason that it will provide a safer and quicker passage for ships; that it will provide beyond question the best solution of the vital problem of how safely to care for the flood waters of the Chagres and other streams; that provision is offered in the lock project for enlarging its capacity to almost any extent at very much less expense of time and money than can be provided for by any sea-level plan; that its cost of operation, maintenance, and fixed charges, including interest, will be very much less than any sea-level canal, and that the time and cost of its construction will not be more than one-half that of a canal of the sea-level type; that the lock project will permit of navigation by night, and that, finally, even at the same cost in time and money, Mr. Stevens would favor the adoption of the high-level lock canal plan in preference to that of the proposed sea-level canal.

To these observations and comments the Secretary of War, under whose supervision this great work is going on, adds his opinion, which is decidedly and unequivocally in favor of a lock canal. In his letter to the President, Mr. Taft goes into all the important details of the subject and reveals a masterly grasp of the situation as it confronts the American people at the present time. He calls attention to the fact that lock navigation is not an experiment; that all the locks

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in the proposed canal are duplicated, thereby minimizing such dangers as are inherent in any canal project, and he adds that experience shows that with proper plans and regulations the dangers are much more imaginary than real. He goes into the facts of the proposed great dam to be constructed at Gatun and points out that such construction is not experimental, but sustained by large American experience, which is larger, perhaps, than that of any other country in the world. He gives his indorsement to the views of the Isthmian Commission and its chief engineer that the estimated cost of time and money for completing a sea-level canal is not correctly stated by the majority members of the Board, and that the cost, in all probability, will be at least \$25,000,000 more, while, in his opinion, eighteen to twenty years will be necessary to complete the sea-level project. He also holds that the military advantages will be decidedly in favor of a lock canal.

This is practically the present status of facts and opinions regarding the canal problem as it is now before Congress, except that since January the Senate Committee on Inter-oceanic Canals has collected a large mass of additional and valuable testimony. Restating the facts in a somewhat different way, Congress is asked to give its final approval to the sea-level proposition, chiefly favored by foreigners, and to give its disapproval to the project of a lock canal, favored by American engineers. Congress is asked to rely in the main upon the experience gained in the management of the Suez Canal, where the conditions are essentially and fundamentally different from what they are or ever will be on the Isthmus of Panama, and to disregard the more than fifty years' experience in the successful management of the lock canals connecting the Great Lakes. Congress is asked to pronounce against the lock canal because in the management of the ship canal at Manchester several accidents have occurred, due to carelessness or ignorance in navigation,

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and we are asked to disregard the successful record of the "Soo" Canal, in the management of which only three accidents, of no very serious importance, have occurred during more than fifty years.

In no other country in the world has there been more experience with lock canals than in this. For nearly a hundred years the Erie Canal has been one of our most successful of inland waterways, connecting the ocean with the Great Lakes. The Erie Canal is 387 miles in length, has 72 locks, and is now being enlarged to accommodate barges of a thousand tons, at a cost of \$101,000,000. We have the Ohio Canal, with 150 locks; the Miami and Erie Canal, with 93 locks; the Pennsylvania Canal, with 71 locks; the Chesapeake and Ohio Canal, with 73 locks; and numerous other inland waterways of lesser importance. It is a question of degree and not of kind, for the problem is the same in all essentials and confronts Congress as much in the proposed deep waterway connecting tide-water with the Great Lakes, in which locks are proposed with a lift of 40 feet, or more, or very considerably in excess of the proposed lift of the locks on the Isthmian canal.

The proposed ship canal from Lake Erie to the Ohio River provides for 34 locks. The suggested canal from Lake Michigan to the Illinois and Mississippi rivers provides for 37 locks, and, finally, the projected ship canal from the St. Lawrence River to Lake Huron contemplates 22 locks. So that lock canals of exceptional magnitude are not only in existence, but new canals of this type are contemplated in the United States and Canada.

In other words, Congress is asked to regard with preference the judgment and opinions of foreign engineers and to disregard the judgment and opinions of American engineers. We are seriously asked to completely disregard American opinion, as voiced by the Isthmian Commission, responsible for the enterprise as a whole; as voiced by the

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Secretary of War, responsible for the time being for the proper execution of the work; as voiced by Chief Engineer Stevens, who stands foremost among Americans in his profession, and finally, as voiced by all the engineers now on the Isthmus, who have a practical knowledge of the actual conditions, and who are as thoroughly familiar as any class of men with the problems which confront us and with the conditions which will have to be met. I for one, leaving out of consideration for the present details which are subject to modification and change, believe that it will be a fatal error for the nation to commit itself to the practically hopeless and visionary sea-level project and to delay for many years the opening of this much needed waterway connecting the Atlantic with the Pacific. I for one am opposed to a waste of untold millions and to additional burdens of needless taxation, while the project of a lock canal offers every practical advantage, offers a canal within a reasonable period of time and at a reasonable cost, offers a waterway of enormous advantage to American shipping, of the greatest possible value to the nation in the event of war, and the opportunity for the American people to carry into execution at the earliest possible moment what has been called the "dream of navigators," and what has thus far defied the engineering skill of European nations.

But in addition to the evidence presented for or against a sea-level or lock canal project by the two conflicting reports of the Board of Consulting Engineers, there is now available a very considerable mass of testimony of American engineers who were called as witnesses before the Senate Committee on Interoceanic Canals. The testimony has been printed as a separate document and makes a volume of nearly a thousand pages. Much of this evidence is conflicting, much of it is mere engineering opinion, much of it comes perilously near to being engineering guesswork, but a large part of it is of practical value and may safely be

relied upon to guide the Congress in an effort to arrive at a final and correct conclusion respecting the type of canal best adapted to our needs and requirements.

A critical examination and review of this testimony, as presented to the Senate Committee from day to day for nearly five months, including the testimony of administrative officers and others, relating to Panama Canal affairs generally, is not practicable at this late stage of the session. Among others, the committee examined Mr. John F. Stevens, chief engineer, upon all the essential points in controversy, regarding which, in the light of additional experience and a very considerable amount of new and more exact information, Mr. Stevens reaffirms his convictions in favor of the practicability and superior advantages of a lock canal.

In opposition to the views and conclusions of Mr. Stevens, Prof. William H. Burr pronounced himself emphatically in favor of the sea-level project. As a member of the former Isthmian Commission, reporting upon the type of canal, Mr. Burr had signed the report in favor of the lock project, but as a member of the Board of Consulting Engineers he had sided with the majority favoring the sea-level canal. Thus engineering opinion is as apt as any other human opinion to undergo a change, and the convictions of one year in favor of a proposition may change into opposite convictions, favoring an opposite proposition, only a few years later. Mr. William Barclay Parsons, also a member of the Board of Consulting Engineers, who had signed the report in favor of the sea-level project, gave further evidence before the committee, restating his views and convictions in favor of the sea-level type. Mr. William Noble, an engineer of large experience, for some years in charge of the "Soo" Canal, and who, as a member of the Board of Consulting Engineers, had signed the report in favor of a lock project, restates his views and convictions in favor of a lock canal. Mr. Noble

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had also been a member of the Isthmian Commission of 1902, reporting at that time in favor of a lock canal.

Mr. Frederick P. Stearns, the foremost American authority on earth-dam construction, gave evidence regarding the safety of the proposed dams at Gatun and other points. His views and conclusions are based upon large practical experience and a profound theoretical knowledge of the subject. Mr. Stearns had also been a member of the Consulting Board of Engineers and as such had signed the report of the minority in favor of the lock project. He reaffirmed his views favoring a lock canal with a dam at Gatun. Mr. John F. Wallace, former chief engineer, gave testimony in favor of the sea-level type and strongly opposed the lock project. Col. Oswald H. Ernst, United States Army, than whom probably few are more thoroughly familiar with conditions on the Isthmus and the entire project of canal construction, declared himself to be strongly in favor of the lock-canal project.

Gen. Peter C. Hains, United States Army, equally well qualified to express an opinion on the subject in all its important points, pronounced himself strongly and unequivocally in favor of a lock canal.

Gen. Henry L. Abbot, United States Army, one of the highest authorities on river hydraulics, thoroughly familiar with Mississippi River flood problems, a former member of the International Technical Commission, of the New Panama Canal Company, and for a time its consulting engineer, a member of different Isthmian commissions, and also a member of the consulting board, re-emphasized his conviction, sustained by much valuable evidence, in favor of the lock canal project. General Abbot, as a member of the consulting board, had signed the report of the minority in favor of a lock canal. Gen. George W. Davis, United States Army, for a time governor of the Canal Zone and president of the International Board of Consulting Engineers,

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restated his views and convictions as opposed to the lock canal type and in favor of the sea-level project. The last witness, Mr. B. M. Harrod, an engineer of large experience, for many years connected with levee construction and familiar with the flood problems of the Mississippi River, submitted a statement in which he restated his views in favor of a lock canal.

So that, summing up the evidence of twelve engineers examined before the committee (including Mr. Lindon W. Bates), there were eight American engineers strongly and unequivocally in favor of a lock canal, while four expressed their views to the contrary. Subjecting the mass of testimony to a critical examination, I cannot draw any other conclusion or arrive at any other conviction than *that the lock project, in the light of the facts and large experience, has decidedly the advantage over the sea-level proposition.* And this view is strengthened by the fact that the opinion of the engineers most competent to judge—that is, men like Mr. Noble, who has thoroughly studied lock canal construction, management, and navigation, who as a member of the United States Deep Waterway Commission re-examined probably as thoroughly as any living authority into the entire subject of the mechanics and practice of lock canals—is emphatically opposed to the sea-level proposition.

When a man like Mr. Stearns, of national and international reputation as a waterworks engineer, who for many years has been in charge of the extensive construction work of the Massachusetts Metropolitan Water and Sewerage Board, and who probably has as large a practical and theoretical knowledge of earth-dam construction as any living authority, declares himself to be strongly in favor of the lock project and believes in the entire safety of the dams required in connection therewith, I hold that such a judgment may be relied upon and that it should govern in national affairs as it would govern in private affairs if the canal

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construction were a business enterprise and involved the risk of private capital. When we find a man like Mr. Harrod, who for many years has been in charge of levee construction in Louisiana, thoroughly familiar with the theory and practice of river and flood control, express himself in favor of the lock project and in opposition to the sea-level canal, I hold that we may with entire confidence accept his judgment as a governing principle in arriving at a final decision respecting the type of the canal to be finally fixed by the Congress.

And, going back to the minority report of the Board of Consulting Engineers, we find that Mr. Joseph Ripley, the general superintendent at present in charge of the "Soo" Canal, and Mr. Isham Randolph, chief engineer of the sanitary district of Chicago, and thoroughly familiar with canal construction and management, both American engineers of much experience and high standing, pronounce themselves in favor of a lock canal. When confronted by these facts, I for one would rely upon American engineers, American conviction and American experience, and accept the lock-canal proposition.

In this matter, as in all other practical problems, we may safely take the business point of view, and calculate without bias or prejudice the respective advantages and disadvantages; and the more thorough the method of reasoning and logic applied to the canal problem the more emphatic and incontrovertible the conclusion that the Congress should decide in favor of a plan which will give us a navigable waterway across the Isthmus within a measurable distance of time and with a reasonable expenditure of money, as opposed to a visionary theory of an ideal canal which may ultimately be constructed, possibly for the exclusive benefit of future generations, but at an enormous waste of money, time, and opportunity. I do not think we want to repeat at this late stage of the canal problem the fatal error of De Lesseps, who,

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when he had the opportunity in 1879 to make a choice of a practical waterway, being influenced by his great success at Suez, upon the most fragmentary evidence and in the absence of definite knowledge of actual conditions, decided beforehand in favor of a sea-level canal. It was largely his bias and prejudice which proved fatal to the enterprise and to himself.

I may recall that the so-called "international congress of 1879" was a mere subterfuge; that the opinions of eminent engineers, including all the Americans, were opposed to a sea-level project and in favor of a lock canal, but De Lesseps had made his plans, he had arrived at his decision, and in his own words, at a meeting of the American Society of Civil Engineers held in January, 1880, said, "I would have put my hat on and walked out if any other plan than a sea-level canal project had been adopted."

The situation to-day is very similar to the critical state of the canal question in 1902. What was then a question of choice of route is to-day a question of choice of plan. What was then a geographical conflict is to-day a conflict of engineering opinions. It has been made clear by the reference to the report of the Board of Consulting Engineers and by the testimony of the engineers before the Senate committee that the opinion of eminent experts is so widely at variance that there is little, if any, hope of an ultimate reconciliation. It is a choice of one plan or the other—of a sea-level or a lock canal. In respect to either plan a mass of testimony and data exists, which has been brought forward to sustain one view or the other. In respect to either plan there are advantages and disadvantages. The majority of the Senate Committee on Interoceanic Canals have reported favorably a bill providing for the construction of a canal at sea-level. From this majority opinion the minority of the committee emphatically and unequivocally dissent, and in their report they express themselves in favor of the lock canal.

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The minority report calls attention to the changed conditions and requirements, which now demand a canal of much larger dimensions than originally proposed. Even as late as 1901 the depth of the canal prism was to be only 35 feet, against 40 to 45 feet in the project of only five years later. The bottom width has been increased from 150 to 200 feet and over. The length of the locks has been changed from 740 to 900 feet, and the width from 84 to 90 feet. These facts must be kept in mind, for they bear upon the questions of time and cost, and a sea-level or lock canal, as proposed to-day, is in all respects a very much larger affair, demanding very superior facilities for traffic, than any previous canal project ever suggested or proposed. This change in plans was made necessary by the Spooner act, which provides for a canal of such dimensions that the largest ship now building, or likely to be built within a reasonable period of time, can be accommodated.

Now, the estimated saving in money alone by adopting the lock plan—that is, on the original investment, to say nothing of accumulating interest charges—would be at least \$100,000,000. Granting all that is said in favor of a sea-level canal, it is not apparent by any evidence produced that such a canal would prove a material advantage over a lock canal. All its assumed advantages are entirely offset by the vastly greater cost and longer period of time necessary for construction, and I am confident that they would not be considered for a moment if the canal were built as a commercial enterprise. I do not think that they should hold good where the canal is the work of the nation, because a vast sum of money otherwise needed will be eventually sunk if the sea-level project is adopted, and entirely upon the theory that *if* certain conditions should arise *then* it would be better to have a sea-level than a lock canal. We have never before proceeded in national undertakings upon such an assumption; we have never before, as far as I know,

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deliberately disregarded every principle of economy in money and time; we have never before in national projects attempted to conform to merely theoretical ideas, but we have always adhered to practical, hard common-sense notions of *what is best* under the circumstances.

The majority of the committee attack the proposition that the proposed lock canal will have "locks with dimensions far exceeding any that have ever been made." If this principle were adopted in every other line of human effort all advancement would come to an end—even the canal enterprise itself—for, as it stands to-day, it far exceeds in magnitude any corresponding effort ever made by this or any other nation. They say that the proposed flight of three locks at Gatun would be objectionable and unsafe, but we have the evidence of American engineers of the highest standing, whose reputations are at stake, who are absolutely confident that these locks can be constructed and operated with entire safety. The committee say that "the entry through and exit from these contiguous locks is attended with very great danger to the lock gates and to the ships as well"; but if mere inherent danger of possible accidents were an objection there would be no great steamships, no great battleships, no great bridges and tunnels, no great undertakings of any kind.

The committee point out that accidents have occurred in the "Soo" Canal and in the Manchester Ship Canal; but the conditions, in the first place, were decidedly different, and, in the second place, they proved of no serious consequence as a hindrance to traffic and did no material injury to the canal. The "Soo" Canal has been in operation as a lock canal for some fifty years; it has been enlarged from time to time, and to-day accommodates a larger traffic than passes through all other ship canals of the world combined. It is a sufficient answer to the objections to say that this experience should have a determining influence in arriving at a conclusion, for the inherent problems of lock-canal construction

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are as well understood by American engineers as any other problems or questions in engineering science. The proposed deep waterway with a 30-foot channel from Chicago to tide-water, which has been surveyed by direction of Congress, proposes an expenditure of \$303,000,000, and several locks with a lift of 40 feet or more. The enlargement of the Erie Canal by the State of New York, at an expenditure of \$101,000,000, involves engineering problems, including lock construction, not essentially different from those inherent in the lock-canal project at Panama; and if these problems can be solved by our engineers at home, it stands to reason that we may rely upon their judgment that they can be solved at Panama.

The majority of the Senate committee object to the proposed dam at Gatun, and say that—

Earth dams founded on the drift and silt of ages, through which water habitually percolates, to be increased by the pressure of the 85-foot lock when made, have been referred to by many of our technical advisers as another element of danger. The vast masses of earth piled on this alluvial base to the height of 135 feet will certainly settle, and as the drift material of this base or foundation has varying depth, to 250 feet or more, the settlement of the new mass, as well as its base, will be unequal, and it is predicted that cracks and fissures in the dam will be formed, which will be reached and used by the water under the pressure above mentioned, and will cause the destruction of the dam and the draining off of the great lake upon which the integrity of the entire canal rests.

But all of this is mere conjecture. The evidence of Engineer Stearns, a man of large experience, and of Engineer Harrod, familiar with river hydraulics and levee construction, and of many others, is emphatically to the contrary. There is not an American engineer of ability, nor an American contractor of experience, who would not undertake to build the proposed dam at Gatun and guarantee its safety and permanency without any hesitation whatever. The alternative proposal of a dam at Gamboa would be as objectionable upon much the same ground, and the dam there, which is indispensable to the sea-level project, has also been considered unsafe by some of the engineers. In all questions of this kind the aggregate experience of mankind ought

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to have greater weight than the abstract theories of individuals, and I am confident that our engineers, who have so successfully solved problems of the greatest magnitude in the reclamation projects of the far West and in the control and regulation of the floods of the Mississippi River, will solve with equal success similar problems at Panama.

The committee further says that the sea-level project contemplates the removal of some 110,000,000 cubic yards of material, while the lock canal would require the removal of only about half that quantity, or, in other words, that there is a difference of some 57,000,000 cubic yards, which, "to omit to take out . . . is to confess our impotence, which is not characteristic of the American people or their engineers or contractors." By this method of reasoning a nation which can build a battleship of 16,000 tons displacement is impotent if it cannot build one of twice that tonnage, and if this reason applies to quantity of material, why not say that a nation which can dig a canal 150 feet wide through a mountain some seven miles in length admits its impotence if it cannot dig one 300 feet wide, or 600 feet, if it should please to do so? But why should it be less difficult or a declaration of impotency on the part of our engineers to build a safe lock canal, including a satisfactory and safe controlling dam at Gatun? As I conceive the problem, it is one of reasonable compromise, and while I do not question the ability of American engineers and contractors to build a sea-level canal, I am convinced by the facts in evidence that they cannot do it within the time and for the money assumed by the advocates of the sea-level project.

This question of *time* is of supreme importance. Ten years in a nation's life is often a long space in national history. Many times the map of the world has been changed in less than a decade. No man in 1890 anticipated the war with Spain in 1898, and no man in 1906 can say what important event may not happen before the next decade has passed.

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The progress during peace is far greater in its permanent effect than the changes brought about by war. The world's commerce, the social, commercial, and political development of the South American republics and of Asiatic nations, all depend, more or less, upon the completion of an Isthmian waterway. It is the duty of this nation, since we have assumed this task, to construct a waterway across the Isthmus within the shortest reasonable period of time. Valuable years have passed, valuable opportunities have gone by. In 1884 De Lesseps, with supreme confidence and upon the judgment of his engineers, anticipated the opening of the Panama Canal in 1888. That was nearly twenty years ago. Shall it be twenty years more before that greatest event in the world's commercial history takes place? Had De Lesseps in 1879 gone before the International Congress with a proposition for a feasible canal at reasonable cost, free from prejudice or bias, had he then adopted the American suggestion for a lock canal, he would probably have lived to see its completion, and the world for fifteen years would have had the use of a practical waterway across the Isthmus.

As to safety in operation, which the committee discuss in their report, there is one very important point to be kept in mind, and that is that nine-tenths, or possibly a larger proportion, of shipping will be of vessels of relatively small size. If this should be the case, then the sea-level project contemplates a canal chiefly designed to meet the possible needs of a very small number of vessels of largest size, while the lock canal provides primarily for the accommodation of the class of steamships which of necessity would make the largest practical use of the Isthmian waterway. Now, it stands to reason that special precautions would be employed during the passage of a very large vessel, either merchantman or man-of-war, and even if necessity should demand the rapid passage of a fleet of vessels, say twenty or thirty, it is not conceivable that a condition

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would arise which could not be efficiently safeguarded against by those in actual charge and responsible for safety in the management of the canal. Considering the immense tonnage passing through the "Soo" Canal, which would not be equaled in the Panama Canal for a century to come, the very few and relatively unimportant accidents which have occurred during the fifty years of operation of that waterway are in every respect the most suggestive indorsement of the lock-canal project which could be advanced.

The time of transit, in the opinion of the majority committee of the Senate, would be somewhat longer in the case of a lock canal. This may be so, though much depends upon the class of ships passing through and their number. To the practical navigator the loss of a few hours would be a negligible quantity compared with the higher tolls that will necessarily be charged if an additional \$100,000,000 is expended in construction and an additional interest burden of at least \$2,000,000 per annum has to be provided for. I understand that the actual value of an hour or two in the case of commercial ships of average size would be a matter of comparatively no importance in contrast with the all-suggestive fact that the alternative project of a sea-level canal would provide no navigation whatever across the Isthmus for probably ten years more. If it is an advantage to gain an hour or two in transit ten years hence by having no transisthmian shipping facilities for the ten years in the meantime, then it might as well be argued that it would be better to project a sea-level canal 300 feet wide at every point, so that the commerce of the year 2000 may be properly provided for. But to the practical navigator of the year 1916, who leaves the port of New York for San Francisco by way of Cape Horn, a possible loss of two or three hours or more would be many times preferable, if the Isthmus were open for traffic, to a certain loss of from forty to fifty days to make the voyage all around South America.

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Upon the question of cost of maintenance the majority committee in their report point out that the Board of Consulting Engineers did not submit the details of any estimate of cost of maintenance, repairs, etc., but they say that this factor was properly taken into account by the minority favoring a lock canal. Now, there is probably no more important question connected with the whole canal problem than this, for if the annual expense of maintenance, to be provided for by Congressional appropriations, should attain such an exorbitant figure as to make any fair return upon the investment impossible, it is conceivable that the most serious political and financial consequences might arise and the success of the enterprise itself might be placed in jeopardy. Upon a maximum cost, in round figures, of \$200,000,000 for a lock canal, and of \$300,000,000 as a minimum for a sea-level canal, the additional annual interest charge would be at least \$2,000,000.

But Mr. Stearns estimates that under certain conditions a sea-level canal might cost as much as \$410,000,000, which would add millions of dollars more per annum to the fixed charges which must be included in the cost of maintenance, to say nothing of a possibly much higher cost of operation. Nor can I agree to the statement that the cost of operation of a sea-level canal would be \$800,000 per annum less than in the case of a lock canal; but, on the contrary, I am fully satisfied that the expense would be very much greater in the sea-level project, if proper allowance is made for interest charges upon the additional outlay, which cannot be rightfully ignored. Upon this important point the evidence of the engineers and of the minority members of the Board is strongly in favor of the lock-canal project.

As regards ultimate cost, the estimates of the majority are very much more indefinite and conjectural than the more

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carefully prepared estimates of the minority of the Board of Consulting Engineers. Upon this point the majority of the Senate committee say:

There are two estimates now before the Senate, both originating with the Board of Consulting Engineers. The basis of computation of cost at certain unit prices was adopted unanimously by the Board, and we are told that the cost, with the 20 per cent. allowance for contingencies, will be, for the sea-level canal, the sum of \$247,021,200. Your committee has adopted the figures stated by the majority on page 64 of its report of a total of \$250,000,000 for the ultimate final cost of the sea-level canal.

The estimate of the minority for a lock canal at a level of 85 feet is, in round figures, \$140,000,000, or about \$110,000,000 less than for a sea-level canal, which would represent a difference of \$2,200,000 per annum in interest charges at the lowest possible rate of 2 per cent. The majority of the Senate committee attempt to meet this difference by capitalizing the estimated higher maintenance charge, which they fix at \$800,000 per annum, and they thus increase the total cost of a lock canal by \$40,000,000; but this, I hold, involves a serious financial error, unless a corresponding allowance is made for the ultimate cost of the sea-level project. There is, however, no serious disagreement upon the point that a sea-level canal in any event would cost a very much larger sum as an original outlay, certainly not less than \$120,000,000 more, and, in all probability, in the opinion of qualified engineers, including Mr. Stevens, the chief engineer, twice that sum.

Reference is made in the report to the probable value of the land which will be inundated under the lock-canal project with a dam at Gatun, the value of which has been placed at approximately \$300,000. The majority of the Senate committee estimate that this amount might reach \$10,000,000, or as much as was paid for the entire Canal Zone. The estimate is based upon the price of certain lands required by the government near the city of Panama, but one might as well estimate the worth of land in the Adirondacks by the prices paid for real estate in lower New York.

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The item, no doubt, requires to be properly taken into account, but two independent estimates fix the probable sum at \$300,000 for lands which are otherwise practically valueless and which would only acquire value the moment the United States should need them. In my opinion, the value of these lands will not form a serious item in the total cost of the canal, and I have every reason to believe that independent estimates of the minority engineers of the Consulting Board, and of Mr. Stevens, may be relied upon as conservative.

The majority of the Senate committee further say that—

It is not necessary to dwell upon the fact that all naval commanders and commercial masters of the great national and private vessels of the world are almost to a man opposed unalterably to the introduction of any lock to lift vessels over the low summit that nature has left for us to remove.

I am not aware that any material evidence of this character has come before the Senate Committee on Isthmian Affairs, investigating conditions at Panama. I do know this, however, that until very recently it has been the American project to construct a lock canal. All the former advocates of an American canal by way of Panama or Nicaragua, or by any other route, contemplated a lock canal of a much more complex character than the present Panama project. All the advocates of a canal across the Isthmus, including many distinguished engineers in the army and navy, have been in favor of a lock canal, and almost without exception have reported upon the feasibility of a lock canal across the Isthmus and upon its advantages to commerce and navigation, and in military and naval operations in case of war. The Nicaragua Canal, as recommended to Congress and as favored by the first Walker Commission, provided for a lock project far more complex than the proposition now under consideration.

Colonel Totten, who built the Panama railroad, recommended as early as 1857 the construction of a lock canal; Naval Commissioner Lull, who made a careful survey of

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the Isthmus in 1874, recommended a lock canal with a summit level of 124 feet and with 24 locks. Admiral Ammen, who, by authority of the Secretary of War, attended the Isthmian Congress of 1879, favored a lock project, in strong opposition to the visionary plan of De Lesseps. Admiral Selfridge and many other naval officers who have been connected with Isthmian surveying and exploration have never, to my knowledge, by as much as a word expressed their apprehensions regarding the feasibility or practicability of a lock canal.

As a matter of fact and canal history, the lock project has very properly been considered "an American conception of the proper treatment of the Panama canal problem." Mr. C. D. Ward, an American engineer of great ability, as early as 1879, suggested a plan almost identical with the one now recommended by the minority of the Consulting Board, including a dam at Gatun, instead of Bohio or Gamboa; and, in the words of a former president of the American Society of Civil Engineers, Mr. Welsh, "The first thought of an American engineer on looking at M. De Lesseps' raised map is to convert the valley of the lower Chagres into an artificial lake some twenty miles long by a dam across the valley at or near a point where the proposed canal strikes it, a few miles from Colon, such as was advocated by C. D. Ward in 1879." The site referred to was Gatun, and this was written in 1880, when the sea-level project had full sway.

So that it is going entirely too far to say that all naval commanders and commercial masters are in favor of the sea-level project. Admiral Walker himself, as president of the former Isthmian Commission, and as president of the Nicaraguan Board, favored a lock canal. Eminent army engineers, like Abbot, Hains, Ernst, and others, favor the lock project. It requires no very extensive knowledge of navigation to make it clear that passing through a waterway which for 35 miles, or 71 per cent. of its distance, will have

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a width of 500 feet or more, compared with one which, for the larger part, or for some forty-one miles, will have a width of only 200 feet or less, must appeal to the sense of security of the skipper while taking his vessel through the canal.

But it is a question of general principles, and not of personal preference. Our concern is with a matter of fact, and not with a theory. No ship-owner on the Great Lakes considers it a serious hindrance to navigation for vessels to pass through the lock of the "Soo" Canal; no shipper running 1,000-ton barges through the future Erie Canal will have the least apprehension of danger or destruction; no captain navigating a vessel or boat through the proposed deep waterway from the ocean to the Lakes will hesitate to pass through locks with a proposed lift of over forty feet. These apprehensions are imaginary and not real. They are not derived from experience or from a summary statement of shipmasters and naval officers, but from the individual expressions and prejudice of a few who are opposed to the lock project. I am confident that if the matter is left to the practical navigator, to the ship-owner, and to the self-reliant naval officer, there will be no serious disagreement with the opinion that a lock canal, which can be built within a reasonable period of time, is preferable to any sea-level canal which may be built and opened to navigation twenty years hence or later.

There are two objections made by the majority of the Senate committee against a lock canal which require more extended consideration. These are, the protection of the canal in case of war and the danger of serious injury or total destruction by possible earth movements or so-called "earthquakes." Regarding the military aspects of the canal problem, the majority of the Senate committee say:

The Spooner act and the Hay-Varilla treaty contemplated the fortification and military protection of the canal route. No proposition affecting this policy is now before the Senate. In so far as the type of canal to be adopted has a bearing upon the jeopardy to or immunity of the canal from risk of malicious injury, the subject of safety and protection is pertinent and most important. If a canal of one

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type would be more liable to injury than another, this liability should under no circumstances be neglected in determining the type or plan. It does not require argument that the use of the canal by the United States will cease if the control passes to a hostile power between which and the United States a state of war exists, but this is true whatever the type may be.

As the majority of the committee point out, "no proposition affecting this project is now before the Senate." In my opinion, none is necessary. The neutrality of the canal is, by implication at least, assured, and we have pledged our national good faith that the waterway will be open to all the nations of the world. Some time in the future, when the canal is completed and an accepted fact, it may be advisable to adopt the course pursued in the case of the Suez Canal. The original concession for that canal provided, by section 3, for its subsequent fortification, but this was never carried into effect. By a convention dated December 22, 1888, among Great Britain, Germany, and other nations, the free navigation of the Suez Canal was made a matter of international agreement, and the same has been reprinted as Senate Document No. 151, Fifty-sixth Congress, first session, under date of February 6, 1900.

This, in any event, is a problem of the future. The canal is the property of the United States, and we shall always retain control. In the event of war we shall rely with confidence upon our navy to protect our interests on the Pacific and in the Caribbean Sea, but even more may we rely upon the all-important fact that it could never be to the interest of any other nation sufficient in size to be at war with us to destroy this international waterway, which will become an important necessity to the commerce of each and all. No neutral nation engaged in extensive commerce or trade would for an instant allow another nation at war with the United States to injure or destroy the canal or to seriously interfere with the traffic passing through it. To destroy as much as a single lock, to injure as much as a single gate, would be considered equal to an act of war by every

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commercial nation of the earth. In this simple fact lies a greater assurance of safety than in all the treaties which might be made or in all the fortifications which might be established to protect the canal.

The majority of the committee well say in their report, that the power of mischief "is within easy reach of all." The possibility of an assumed occurrence is very remote from its reasonable probability. We have to rely upon our own good faith and the watchful eyes of our officers. Against possible contingencies, such as are implied in the assumed destruction of the locks by dynamite or other high explosives, we can do no more than take the same precautions which we take in all other matters of national importance. We have to take our chances the same as any other nation would; the same as commercial enterprise would. Certainly the remote possibility of such an event, the still more remote contingency that the injury would be serious or fatal to the operation of the canal, should not govern in a decision to construct a canal for the use of the present generation rather than for the generations to come. No canal can be built free from vulnerable points; no forts, no battleships, can be built free from such a risk. It would be folly to delay the construction of a canal; it would be folly to sink a hundred million dollars or more upon so remote a contingency as this, which belongs to the realm of fanciful or morbid imagination rather than to the domain of substantial fact and actual experience.

As a last resort, the opposition to a lock canal brings forward the earthquake argument. It is a curious reminder of the early and bitter opposition to the building of the Suez Canal; its enemies had to fall back upon the absurd theory that the canal would prove a failure because the blowing sands of the desert would soon fill the channel. It was seriously proposed to erect a stone wall four feet high on each side of the embankment to provide against this imaginary

danger to the canal. Another early objection to the Suez Canal was that the Red Sea level was 30 feet above the level of the Mediterranean, only set at rest in 1847 by a special commission, which included Mr. Robert Stephenson, the great son of a great father, bitter to the last in his opposition to the canal, which he considered an impracticable engineering scheme. There was much talk about the assumed prevalence of strong westerly winds on the southern Mediterranean coast, and the danger of constantly increasing deposits of the Nile, it was said, would render the establishment of a port impossible. It was necessary to place a war-ship for a whole winter at anchor three miles from the shore to prove the error of this assumption and set at rest a foolish rumor which came near proving fatal to the enterprise.

Earthquakes have occurred on the Isthmus, and there is record of one shock of some consequence in 1882. The matter has been inquired into in a general way by the various Isthmian commissions, and assumed some prominence during the discussions and debates regarding a choice of routes. It was plain to even the least informed that the volcanic belt of Nicaragua constituted a real menace to a canal in that region; and one of the strongest arguments advanced in the minority report of the Senate committee of 1902, submitted by Senator Kittredge, now a leading advocate of the sea-level project, in opposition to the Nicaragua Canal, was the assertion of the practical freedom of the Panama Isthmus from the danger of earth movements.

The minority of the Senate committee of 1902 in their report, summing up the final reasons in favor of the Panama route (section 12), said:

At Panama earthquakes are few and unimportant, while the Nicaraguan route passes over a well-known coastal weakness. Only five disturbances of any sort were recorded at Panama, all very slight, while similar official records at San Jose de Costa Rica, near the route of the Nicaragua Canal, show for the same period fifty shocks, a number of which were severe. (P. 11, S. Rep. 783, part 2, 57th Cong., 1st session, May 31, 1902.)

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In another part of their report the committee said:

With the dreadful lessons of Martinique and St. Vincent fresh in our minds, we should be utterly inexcusable if we deliberately selected a route for an Isthmian canal in a region so volcanic and dangerous, when a route is open to us which is exposed to none of these dangers and is in every other respect more advantageous.

And they quote Professor Heilprin, an authority on the subject, in part, as follows:

It has, however, been known for a full quarter of a century that the main Andes do not traverse the Isthmus of Panama, and that there are no active or recently decayed volcanoes in any part of the Isthmus. So far, however, as danger from direct volcanic contacts is concerned, the Panama route is exempt. (Pp. 22-23.)

And further:

This district represents the most stable portion of Central America. No volcanic eruptions have occurred there since the end of the Miocene epoch, and there are no active volcanoes between Chiriqui and Tolima, a distance of about four hundred miles. Such earthquakes as have occurred are chiefly those proceeding from the disturbed districts on either hand, with intensity much diminished by the distance traversed. The canal lies in a sort of dead angle of comparative safety.

The report continues:

The situation being, then, that the danger from volcanoes at Panama is nothing, and that from earthquakes practically nothing, while at Nicaragua the canal would be situated in one of the most dangerous regions of the world from both these causes, the question should be considered settled.

This was the opinion of the committee of 1902; it was emphatic and plain in its language; it had considered expert views and the available data. It had before it the full report of the Nicaragua Canal Commission, printed under date of May 15th of the same year, Chapter VII of which considers the subject at much greater length than has been done since that time and with a full knowledge of the facts and free from bias or prejudice. With the then recent occurrence at Mount Pelee in mind, and with a full understanding of the liability of the Isthmus to seismic shocks of minor importance, the committee emphatically indorsed the lock-canal project at Panama.

Much can be said with regard to this matter, and it is one which should, and no doubt will, receive the most careful consideration of the engineers in charge of the work.

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Seismic disturbances have occurred in all parts of the world, and they have occurred at Panama. Where they are not directly of volcanic origin they appear to be the result of subsidence or contraction of the earth's crust, and they have occurred and caused serious destruction far from centers of volcanic activity, among other places, at Lisbon, Portugal, and at Charleston, S. C. Some sections of the earth, as for illustration Japan and the Philippines, are no doubt more subject to these movements than others, and sections subject to such movements at one period of time may be exempt for many years if not forever thereafter.

The fearful earthquake which affected Charleston, S. C., in 1886 had no corresponding precedent in that section, nor has it been followed by a similar disturbance. Regardless of the terrible experience of 1886, the government has now in course of construction at Charleston a navy-yard, and a great dry-dock, costing many millions of dollars, which will be operated by locks or gates, and, I presume, the question of earthquakes or earth movements has not been raised in any of the reports which have been made regarding this undertaking. Earthquakes formerly were quite frequent in New England, and they extended to New York during the early years of our history, and for a time Boston and Newbury, Mass., Deerfield, N. H., and particularly East Haddam, Conn., were the centers of seismic activity, which by inference might be used as an argument against our navy-yards at Portsmouth, N. H., and Charlestown, Mass., our torpedo station at Newport, or the fortifications at Willets Point. The earthquake which destroyed Lisbon in 1755 might with equal propriety be used as an argument against the building of the extensive docks and fortifications at Gibraltar, but no one, I think, has ever questioned the solidity of the Rock.

Seismology is a very complex branch of geologic inquiry and it is a subject regarding which very little of determining

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value is known. Theories have been advanced that under certain geological conditions earth movements would be comparatively infrequent, if not impossible. Whether such conditions exist at Panama would have to be determined by the investigations of qualified experts. It would seem, however, from such data as are available, that the local conditions are decidedly favorable to a comparative immunity of this region from serious seismic shocks, at least such as would do great and general damage. Nor can it be argued that the locks and dams would be exposed to special risk. The earthquake of 1882 did more or less damage, but the reports are of a very fragmentary character. Newspaper reports in matters of this kind have very small value. Injury was done to the railway, but not of very serious consequence.

If the risk exists, it would affect equally a sea-level canal, in that it would threaten the tidal lock, the dam at Gamboa, and the excavation through Culebra cut. Very little is known regarding earthquake motions, and there are very few seismic elements which are really calculable in conformity to a mathematical theory of probability. It is a subject which has not received the attention in this country of which it is deserving, but enough of seismic motion is known to warrant the conclusion that the Senate committee of 1902 was, in all human probability, entirely correct when it made light of the danger of the probability of seismic shocks at Panama.

In fine, the earthquake argument has little or no force against a lock-canal project, and it has never received serious consideration as such or been used in arguments against a lock canal until the recent San Francisco disaster brought the subject prominently before the public. It is a danger as remote as a possible destruction of the proposed terminal plants at Colon and Panama by flood waves equal in magnitude to the one which destroyed Galveston in 1900, but such dangers are inherent in all human undertakings. They must be taken as a matter of chance and remote possibility,

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which for all present purposes may be left out of account, except that the subject should receive the due consideration of the engineers and perhaps be made a matter of special and comprehensive inquiry by the Geological Survey. In any serious consideration of the facts for or against a lock canal, I am confident that the earthquake risk may safely be ignored. The comprehensive report of the minority members of the Senate Committee on Interoceanic Affairs is a sufficient and conclusive answer to all the important points which are in controversy, and it remains for Congress to cut the "Gordian knot" and put an end to an interminable discussion of much solid and substantial conviction on the one hand and of a vast amount of opinion and guesswork on the other hand. All of the evidence, all of the supplementary expert testimony which may be obtained upon the merits of the two propositions, will not change the position of those who rest their conclusions upon American experience and upon the judgment of American engineers, and who favor a lock canal. While there is no doubt that such a canal can be constructed and can be made a practicable waterway, there is a very serious question whether a sea-level canal can be constructed and made a safe and practicable waterway, at least within the limits of the estimated amount of cost and within the estimated time.

The view which I have tried to impress upon the Senate is nothing more nor less than a business view of what is, for all practical purposes, only a business proposition. If a lock canal can be built, useful for all purposes, at half the cost and within half the time of a sea-level canal, then I can come to no other conclusion than that a lock canal would be decidedly to our political and commercial advantage. A decision, however, should be arrived at. The canal project has reached a stage where the final plan or type must be determined, and it is the duty of Congress to act and to fix, for once and for all time, the type of canal, with the same cour-

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age and freedom from prejudice or bias as was the case in the decision which finally fixed the route by way of Panama.

Any amount of additional testimony and expert opinion will only add to the confusion and tend to produce a more hopeless state of affairs. Let Congress fix the type in broad outlines and leave it to responsible engineers in actual charge to solve problems in detail, and to adapt themselves to local conditions and to new problems which in the course of construction are certain to arise. Let us take counsel of the past, most of all from the experience gained in the construction of the Suez Canal, an engineering and commercial success which challenges the admiration of the world. We know how near it came to utter defeat by the conflict of opinion, by the intrigue of conniving and jealous powers, and last, but not least, by the ill-founded apprehensions and fears of those who were searching the vast domain of conjecture and remote possibilities for arguments to cause a temporary delay or ultimate abandonment.

It is not difficult to secure the opinion of eminent authority for or against any project when the facts themselves are in dispute, and when the objects and aims are not well defined. The great Lord Palmerston, the most bitter opponent of the Suez Canal scheme, in want of a more convincing argument, seriously claimed that France would send soldiers disguised as workmen to the Isthmus of Suez, later to take possession of Egypt and make it a French colony. By one method or another Palmerston tried to defeat the scheme in its beginning and to bring it to disaster during the period of construction. It is a far from creditable story. History always more or less repeats itself, whether it be in politics or engineering enterprise, but in few affairs are there more convincing parallels than in the canal projects of Panama and Suez. Lord Palmerston and Sir Henry Bulwer, then the ambassador at Constantinople, did all in their power to destroy public confidence in the enterprise, and they were

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completely successful in preventing English investments in the stock of the canal.*

It was the same Sir Henry Bulwer who, in 1850, succeeded by questionable diplomatic methods in foisting upon the American people a treaty which was contrary to their best interests and which for half a century was a hindrance and barrier to an American Isthmian canal. We owe it chiefly to the masterly and straightforward statesmanship of the late John Hay that this obstacle to our progress was disposed of to the entire satisfaction of both nations. I refer to these matters, which are facts of history, only to point out how an interminable discussion of matters of detail is certain to delay and do great injury to projects which should only receive Congressional consideration in broad outlines and upon fundamental principles. If we are to enter into a discussion of engineering conflicts, if we are to deliberate upon mere matters of structural detail, then an entire session of Congress will not suffice to solve all the problems which will arise in connection with that enterprise in the course of time. I draw attention to the Suez experience solely to point out the error of taking into serious account minor and far-fetched objections which assume an undue magnitude in the public mind when they are presented in lurid colors of impending disasters to a national enterprise of vast extent and importance.

So eminent an engineer as Mr. Robert Stephenson by his expert opinion deluded the British people into the belief that the Suez Canal would not be practicable; that, even if completed, it would be nothing but a stagnant ditch. Said Palmerston to De Lesseps:

All the engineers of Europe might say what they pleased, he knew more than they did, and his opinion would never change one iota, and he would oppose the work to the end.

Stephenson confirmed this view and held that the canal would never be completed except at an enormous expense,

* The Maritime Canal of Suez, from its Inauguration, November 17, 1869, to the year 1884, by Prof. J. E. Nourse, U. S. N., Washington, 1884 (Senate Document 198, 48th Congress, 1st session).

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too great to warrant any expectation of return—a judgment both ill advised and erroneous as was clearly proved by subsequent events. I need only say that the Suez Canal is to-day an extremely profitable waterway, and that although the work was commenced and brought to completion without a single English shilling, through French enterprise and upon the judgment of French engineers, it was only a comparatively few years later when, as a matter of necessity and logical sequence, the controlling interest in the canal was purchased by the English government, which has since made of that waterway the most extensive use for purposes of peace and of war.

These are the facts of history, and they are not disputed. Shall history repeat itself? Shall we delay or miscarry in our efforts to complete a canal across the Isthmus of Panama upon similar pretensions of assumed dangers and possibilities of disaster, all more or less the result of engineering guesswork? Shall we take fright at the talk about the mischief-maker with his stick of dynamite, bent upon the destruction of the locks and the vital parts of the machinery, when history has its parallel during the Suez Canal agitation in “the Arab shepherd, who, flushed with the opportunity for mischief and with a few strokes of a pickax, could empty the canal in a few minutes”? Shall we be swayed by foolish fears and apprehensions of earthquakes or tidal waves, and waste millions of money and years of time upon a pure conjecture, a pure theory deduced from fragmentary facts? Again the facts of canal history furnish the parallel of Stephenson and other engineers, who successfully frightened English investors out of the Suez enterprise by the statement that the canal would soon fill up with the moving sands of the desert, that one of the lakes through which the canal would pass would soon fill up with salt, that navigation of the Red Sea would be too dangerous and difficult, that ships would fear to approach Port Said because of dangerous

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seas, and, finally, that in any event it would be impossible to keep the passage open to the Mediterranean.

It was this kind of guesswork and conjecture which was advanced as an argument by engineers of eminence and sustained by one of the foremost statesmen of the century. How absurd it all seems now in the sunlight of history! The Panama Canal is a business enterprise, even if carried on by the nation, and with a thorough knowledge of the general facts and principles we require no more expert evidence, so-called, nor additional volumes of engineering testimony. The nation is committed to the construction of a canal. The enterprise is one of imperative necessity to commerce, navigation, and national defense, and any further discussion, any needless waste of time and money, is little short of indifference to the national interests and objects which are at stake.

Of objections to either plan there is no end, and there will be no end as long as the subject remains open for discussion. To answer such objections in detail, to search the records for proof in support of one theory or another, is a mere waste of time which can lead to no possible useful result. Among others, for illustration, there has been placed before us a letter from the chief engineer of the Manchester Ship Canal, who is emphatically in favor of a sea-level waterway. It would have been much more interesting and much more valuable to the members of Congress to have received from Mr. Hunter a statement as to why he should have changed his opinions; or why, in 1898, he should have signed the unanimous report of the technical commission in favor of a lock canal, while now he so emphatically sustains those who favor the sea-level project. It is not going too far to say, appealing to the facts of history, that Mr. Hunter may be seriously in error in this matter and may have drawn upon his imagination rather than upon his engineering experience, the same as Mr. Robert Stephenson was in serious error in his bitter opposition to the canal enterprise at Suez.

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Mr. Hunter, in his letter, argues, among other points, that the lifts of the proposed locks would be without precedent. Without precedent? Why, of course, they would be without precedent. Is not practically every large American engineering enterprise without precedent? Was not the Erie Canal, completed in 1825, without precedent? Were not the first steamboat and the first locomotive without precedent? Were not the Hoosac Tunnel and the Brooklyn Bridge feats of American engineering enterprise without precedent?

Without precedent is the great barge canal which the State of New York is about to build, which will mean a complete reconstruction of the existing waterway which connects the ocean with the Great Lakes.*

All this is without precedent. But it is American. It is progress, and takes the necessary risk to leave the world better, at least in a material way, than we found it. In the proposed deep waterway, which is certain some day to be built to connect the uttermost ends of the Great Lakes with tide-water on the Atlantic, able and competent engineers of the largest experience have designed locks with a lift of 52 feet.† That will be without precedent. On the Oswego Canal, proposed as a part of the new barge canal of the State of New York, there will be six locks, two of which will each have a lift of 28 feet,‡ and that will be without precedent, but neither dangerous nor detrimental to navigation interests.

Need I further appeal to the facts of past canal history? Is it necessary to recite one of the best known and most honorable chapters in the history of inland waterways—I mean the problems and difficulties inherent in the great project of constructing the canal of Languedoc, or “Canal du Midi,” which forms a water communication between the Mediterranean and the Garonne and between the Garonne and the

* For a history of American canal building enterprises see *History of New York Canals*, ch. 5.

† Report of the Board of Engineers on Deep Waterways, H. of R., Doc. No. 149, 56th Congress, 2d session, Atlas.

‡ *History of New York Canals*, Appendix L, Annual Report of the State Engineer and Surveyor, vol. II, Albany, N. Y., 1905.

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Atlantic Ocean, one of the best known canals in France and in the world? Need I refer to that pathetic story of its chief engineer, Riquet, one of the greatest of French patriots, who, in his abiding faith in this great engineering feat, stood practically alone? Need I recall that he met with scant assistance from the government, with the most strenuous opposition from his countrymen; that he was treated even as a madman, and that he died of a broken heart before the great work was finished?

That canal stands to-day as an engineering masterwork and as a most suggestive illustration of man's ingenuity and power to overcome apparently insuperable natural obstacles. It has been in existence and successful operation, I think, since 1681. For a sixth part of its distance it is carried over mountains deeply excavated. It has, I think, ninety-nine locks and viaducts, and as one of its most wonderful features it has an octuple lock, or eight locks in flight, like a ladder from the top of a cliff to the valley below. If in 1681 a French engineer had the ability and the daring to conceive and construct an octuple lock, will any one maintain that more than two hundred years later, with all the enormous advance in engineering, with a better knowledge of hydraulics and a more perfect method of transportation and handling of materials—will any one maintain that we are not to-day competent to construct successfully a lock canal such as is proposed to be built at Panama upon the judgment of American engineers?

Mr. President, the overshadowing importance of the subject has led me to extend my remarks far beyond my original intention. I express my strong convictions in favor of a lock canal and of the necessity for an early and specific declaration of Congress regarding the final plan or type of canal which the nation wants to have built at Panama. I am confident that it lies entirely within our power and means to build either type of waterway; that our engineering skill can

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successfully solve the technical problems involved in either the lock or the sea-level plan; but there is one all-important factor which controls, and which, in my opinion, should have more weight than any other, and that is the element of time. If I could advance no other reasons, if I knew of no better argument in favor of a lock canal, my convictions would sustain the project which can be completed within a measurable distance of years and for the benefit and to the advantage of the present generation. Time flies, and the years pass rapidly. Shall this project languish and linger and become the spoil of political controversy and a subject of political attack? Can we conceive of anything more likely to prove disastrous to the canal project than political strife, which proved the undoing of the French canal enterprise at Panama?

Shall the success of this great project be imperiled by the possible changes in the fortunes of parties? Shall we incur the risk that changes in economic conditions, hard times, or panic and industrial depressions may bring about? Time flies, and in the progress of industry and commerce, in international competition and the growth of modern nations, no factor is of more supreme importance than the years, with new opportunities for political and commercial development. Shall we, then, neglect our chances? Shall we fail to make the most of this the greatest opportunity for the extension of our commerce and navigation into the most distant seas which will ever come to us in our history, because of the demands of idealists, who, with theoretical notions of the ultimately desirable, would deprive the nation and the world of what is necessary and indispensable to those who are living now?

Vast commercial and political consequences will follow the opening of the transisthmian waterway. In the annals of commerce and navigation it is not conceivable that there will ever be a greater event or one fraught with more momentous

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consequences than uninterrupted navigation between the Atlantic and the Pacific. Little enough can we comprehend or anticipate what the far-distant future will bring forth, but this much we know—that it is our duty to solve the problems of *to-day* and not to indulge in dreams and fancies in a vain effort to solve the problems of a far-distant future.

But *money* also counts. Can we defend an expenditure of an additional \$100,000,000 or more for objects so remote, and upon a basis of theory and fact so slender and so open to question, when a plan and a project feasible and practicable is before us which will meet all of our needs and the needs of generations to come? Shall we disregard in the building of this canal every principle of a sound national economy and commit ourselves to an enormous waste of funds and to the imposition of needless burdens upon the taxpayers of this nation and upon the commerce of the world? At least \$2,000,000 more per annum will be required in additional interest charges, at least \$100,000,000 more will be necessary as an original investment. Do we fully realize what that amount of money would do if applied to other national purposes and projects?

I want to place on record my convictions and the reasons governing my vote in favor of the minority report for a lock canal across the Isthmus at Panama. I entered upon an investigation of the subject without prejudice or bias and have examined the facts as they have been presented and as they are a matter of record and of history. I have heard or read with care the evidence as it has been presented by the Board of Consulting Engineers and the vast amount of oral testimony before the Senate Committee on Interoceanic Affairs. I am confident that the minority judgment is the better and that it can be more relied upon, because it is strictly in conformity with the entire history of the Isthmian canal project. I am confident that the objections which have been raised against the lock plan are an undue exaggeration

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of difficulties such as are inherent in every great engineering project, and which, I have not the slightest doubt, will be successfully solved by American engineers, in the light of American experience, exactly as similar difficulties have been solved in many other enterprises of great magnitude.

I am not impressed with the reasons and arguments advanced by those who favor the sea-level project, for they do not appeal to me as being sound, and in some instances they come perilously near to being engineering guesswork characteristic of the earlier enterprises of De Lesseps. I cannot but think that bias and prejudice are largely responsible for the judgment of foreign engineers so pronounced in favor of a sea-level project. Furthermore, I am entirely convinced that the judgment and experience of American engineers in favor of a lock canal may be relied upon with entire confidence, and that such an enterprise will be brought to a successful termination. I believe that in a national undertaking of this kind, fraught with the gravest possible political and commercial consequences, only the judgment of our own people should govern, for the protection of our own interests, which are primarily at stake. I also prefer to accept the view and convictions of the members of the Isthmian Commission, and of its chief engineer, a man of extraordinary ability and large experience.

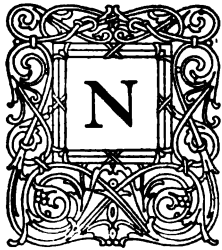
It is a subject upon which opinions will differ and upon which honest convictions may be widely at variance, but in a question of such surpassing importance to the nation, I, for one, shall side with those who take the American point of view, place their reliance upon American experience, and show their faith in American engineers.

CHAPTER XII

ABRAHAM LINCOLN
AND
ALEXANDER HAMILTON

AN ADDRESS
DELIVERED BEFORE THE
EAST ORANGE, N. J., REPUBLICAN CLUB
FEBRUARY 12, 1904

ABRAHAM LINCOLN AND ALEXANDER HAMILTON



FEW occasions teach new duties, and man's thoughts widen with the progress of the sun. While problems of our national life demand for their satisfactory solution a rigid adherence to the fundamental principles of the constitution, in the light of new occasions, discoveries, and experiences they demand also a broad interpretation of the powers it confers in matters not within the range of thought and action a century ago. No conceivable position in public life can be thought of as more trying, no test of character and human energy more severe, than the stress and strain of the great questions which in his administration, from the day of his inauguration to the hour of his untimely death, confronted the heroic man whose memory we celebrate to-night.

Lincoln will always stand as the supreme type of human courage—of faith in God and in himself. Long before he became President he had fought the battle of conscience and made his choice of right principles against political sophistry and the seductive views of the doctrine of selfish expediency. Little did it matter to him that he lost the senatorship in his contest with Douglas; his thought was upon the final result—the mighty issues upon which hung the destiny of the republic. He was sure of himself, of his position, of his principles. To him there was but one nation, and no casuistry could move him, no expediency could swerve him, no self-interest could divert him from the course which, taking counsel alone of God and his own conscience, he had determined to follow. “Let us have faith,” he said, in ending his debates with Douglas, “that right makes might, and in that faith let us to the end dare to do our duty as we understand it.”

Lincoln never looked backward. His faith was of the

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future and his concern was the duty of the hour. He had the almost superhuman faculty of putting disaster behind him and of applying his whole force to the needs of the moment. During all the trying days of the Rebellion, his faith and hope in ultimate victory and his trust in God's providence never for once deserted him.

Let us on this anniversary of his birth take to heart the three fundamental laws of his life—sincerity of thought, courage in action, and a firm faith in the future. The Republican party was formed primarily for the purpose of preventing the extension of slavery into the territories, but, in the words of Senator Hoar, "the providence of God imposed upon it far larger duties." It has done for the people what in the judgment of wise and trusted men was best for our welfare, what was necessary to maintain the strength and the dignity of the United States at home and abroad, and what experience has proven most efficacious in advancing the moral and material well-being of every element of our population. New conditions have demanded new functions for the effective conduct of the nation's business and new laws to regulate the predestined expansion of American influence and diplomacy. Development in all that is most beneficent, with unfaltering courage, has been the policy of the Republican party from its birth down to this day; development not in one direction only, but in all directions; not in a limited way, making for the advantage of some particular class or section, but in the widest possible sense, making for a more general distribution of wealth and a higher standard of life and living among all. This conception of national betterment, in the words of the late President McKinley, "is the real question in its comprehensive view. It touches the health and progress of the republic, for it touches the condition—moral, physical, and intellectual—of the citizen, from which it must draw its force and character and strength." It is to the glory of the Republican party that while it made

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possible the preservation of the Union, it has made equally possible the highest development of the Union in its internal affairs and external relations. It has made the United States the foremost manufacturing and agricultural nation, it has developed upon a sound and honest basis a system of national finance and banking; it has adjusted its fiscal policy to economic laws and social conditions, promoting the individual welfare, increasing the individual earnings and possibilities on the part of every one enjoying the privilege of citizenship and life in this great republic. To-day our flag is a most potential emblem of the power that makes for peace and progress in every corner of the earth.

We may take a pardonable pride in our recent national achievements. Our progress in population, in wealth, in industry, challenges the admiration of the world. We are now a nation of eighty millions of people, widely different in their origin, many of whom have come from distant shores to find an asylum and better possibilities in this land of political and economic freedom, but all imbued with the spirit of being integral factors in its further growth and development. No one, I am sure, doubts for a moment that if another national call to arms were issued, in full proportion to their numbers, the young, the middle-aged, and even the old would respond to the call of duty to preserve the republic and to maintain the laws. However great our satisfaction may be with the material progress which has been made within recent years, we have more reason to be proud of the advancement in knowledge and understanding, in the mode of life and morals of the people, never so contented, never so temperate, never so sound in health and mind as they are to-day. It needs only a glance at the state of our farms and factories, at the condition of the poor and at the returns of pauperism and dependency, to convince even the most skeptical that the progress of this nation has been real and not apparent, has, in fact, been profound and of benefit to all. Never in all the

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world's history has there been a nation like ours, as well governed as ours, as thoroughly developed as ours in the arts of peace and yet fully prepared to sustain the victories of peace in the field of war. For much of this we are indebted to the spirit of Lincoln, ever dominant in the Republican party, which in its measures and its men may safely claim to be representative of what is best, what is highest and what is truest in the people of this land.

We are not to-day confronted by the serious questions of Lincoln's time; there is no danger to-day of national disintegration, and there is no cloud on the horizon which threatens our national peace. More than ever we are a people united in thought and action, following the arts and industries which make possible a more complete realization of the purposes of life. Great questions indeed confront us, which, for their happy solution, will demand the exercise of the soundest judgment and the highest regard for the interests of all the people; and there is undoubtedly much apprehension as to the rapid growth of capital and the accumulation of great fortunes, yet there never was a greater fallacy uttered, nor a more deliberate untruth told, than that in this land of ours "the rich are growing richer and the poor are growing poorer." Deep down in his heart the agitator who would arouse the lower passions of the people knows that what he thus proclaims as a fact, or as a new discovery, is untrue. Full well he knows, or could know if he would and were fair in mind and sound in judgment, that not since the dawn of history has a people been so free in every sense, political, social and economic, as are the people of this nation at the present time. Never in history has a people been so well housed, so well provided with good food and clothing, so easily able to educate their children and to provide for the future of both themselves and their children. Not in all the records of human experience has a race or people been so intelligent, so industrious, so healthy, and

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so well-to-do in material things as these people of the United States one hundred and fifteen years after the adoption of the constitution. Political pessimists seek industriously for occasional instances of abuse in power, or corruption in office, or the betrayal of some sacred private trust; but the man with his eyes open and his mind free from the taint of unfair political bias, can see, can hear, can realize, that our people, our masses, our wage-earners, in a large and all-predominating majority, are making progress and are advancing more rapidly toward a higher standard of life than has ever before been possible among the people of any nation or of any age. Millions come to us from other lands, not only because of higher wages or more ready opportunity for labor, but also, and perhaps largely, because of our political institutions, our beautiful country, our highly developed industries, our growth at home and abroad, and our fiscal policy of protection to American labor and American genius.

Our government rests upon a constitution which was framed after the most intelligent and deliberate consideration ever given to the fundamental law of any land. There can be no narrow construction put upon that great instrument, which forms the foundation-stone of this republic, for in the course of human events it is impossible to foresee or anticipate all that may develop anew or result from changes in what is old. Little can we anticipate questions and problems arising from the combination of events entirely outside of the domain of human prophecy. Many of our social institutions and most of the inventions of modern times, such as the railway, the telegraph, the telephone, the practical uses of electricity, and the thousand and one other results of human ingenuity and specialization, were far beyond the scope of the mind confronted with the different conditions affecting the welfare and future of the nation one hundred and fifteen years ago. But the all-predominant genius which framed that immortal instrument

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—which we trust will endure the ravages of time as the best form of government yet devised for the benefit of man—left to be employed when needed wisely implied powers with which the representatives of the people could be trusted, and which in not a single instance have been seriously abused.

It is not the problem of war and its stress and strife, but the successful solution of great social and economic questions which confront us at the present time. Predominant in the mind of many most seriously concerned with the trend of our national affairs is the thought, and perhaps the conviction, that so-called trusts or combinations of capital and large business corporations generally should be brought under the direct control of the people by an act of Congress. Opinions differ not so much as to the necessity and advantage of such control, as upon the question whether this should be brought about by an act of Congress or, if necessary, by an amendment to the constitution. Generally the first thought in the mind of the political reformer, such amendments are usually found to be needless after more mature consideration. During the first hundred years of our constitutional history not less than one thousand propositions were made at different times to amend that instrument, but of these only fifteen have been adopted and found actually necessary to meet the permanent needs of the nation. The tendency in our national legislature from the very outset has been in the direction of more and more reliance upon the doctrine of the implied powers in the constitution. While there is, undoubtedly, danger in a too liberal interpretation of the constitution, experience, including the tremendous struggle and perplexing problems of the great Civil War, has shown that as a general rule the constitutional provisions covering the powers of the executive, legislative and judicial departments are fully adequate and sufficiently elastic to adapt themselves to changing conditions and the progress of the times. There has often been a disposition to make

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the constitution a code of laws, but, fortunately, the safeguards thrown about the instrument and the difficulties in the way of making amendments by the method provided for in the constitution itself are such that only fundamental changes, having their origin in inherent necessities of new situations and resulting from new conditions, are ever likely to become incorporated into the original and enduring law of this land. Attempts to amend the constitution show to a large degree the waves of popular feeling and reflect the political theories of the time.

In no direction, perhaps, is the constitution more explicit than in the provisions for the control by Congress of interstate commerce and the implied power to create and control corporations engaged in such commerce. Many efforts have been made to limit or define the implied powers in this direction, and not a few to increase the expressed powers; but while amendments have been suggested it has not been found necessary to modify the constitution in this respect. Out of this question grew the great controversy over the power of Congress to charter corporations, so ably expounded in the opinions of Alexander Hamilton. Hamilton, with rare insight, controverted the contentions of Jefferson and Randolph, and even of Madison, by far the best trained of his antagonists in constitutional debates. His opinion on the constitutionality of the United States bank must always rank as one of the most brilliant elucidations of the constitution and its implied powers. Marshall, in the later case of the United States *vs.* Maryland, adopted much of Hamilton's reasoning, and, in an opinion of enduring fame, declared that "the act incorporating the bank of the United States is a law made in pursuance with the constitution." The main contention of Hamilton was "that all government is a delegation of power. But how much is delegated in each case is a question of fact, to be made out by fair reasoning and construction, upon the particular provisions of the constitution, taking as

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guides the general principles and general ends of governments," and he concludes that "it is not denied that there are implied as well as express powers and that the former are as effectually delegated as the latter."

He also brought out a most important point, which seems to have escaped the attention of many of those who have since written on the constitution, its growth, history, and interpretation, namely, that "there is another class of powers which may be properly denominated 'resulting powers.' " With almost prophetic foresight he reasons "it will not be doubted that if the United States should make a conquest of any of the territories of its neighbors they would possess sovereign jurisdiction over the conquered territory," but this, he argues, "would be rather a result from the whole mass of the powers of the government, and from the nature of political society, than a consequence of either of the powers specifically enumerated." Hamilton realized the impossibility of framing express constitutional provisions for all the varieties of governmental functions, exigencies, and problems likely to arise in the course of time, and he therefore relied upon a conscientious interpretation of the doctrine of implied powers. "The means by which national exigencies are to be provided for, national inconveniences obviated, national prosperity promoted, are of such infinite variety, extent and complexity that there must of necessity be great latitude of discretion in the selection and application of those means. Hence, consequently, the necessity and propriety of exercising the authorities entrusted to a government on principles of liberal construction." And, finally, he concluded that "in all questions of this nature, the practice of mankind ought to have great weight against the theories of individuals." And looking over the history of our government from that time to this, we should indeed have great difficulty in finding exceptions to the general rule that it has been well administered and primarily for the benefit of all the people,

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with wisdom, with courage, and with honesty, and an earnest endeavor to conscientiously live up to the oath of office imposed upon the servants of the people to obey the constitution as the fundamental law of the land.

APPENDIX

APPENDIX A

Under date of September 11, 1905, I addressed the following letter of inquiry to some eight thousand associations and individuals throughout the United States:

My dear Sir:

In his last annual message* President Roosevelt called the attention of Congress to the necessity for Federal legislation providing for the regulation and control of insurance companies transacting interstate and international business. In compliance with an increasing demand from insurance policyholders and others interested in the public welfare, I introduced into the last Congress a bill to this effect, providing that there should be established within the Bureau of Corporations a Division of Insurance, and that policies of insurance were deemed to be articles of commerce and instrumentalities thereof. The bill was introduced too late to secure final consideration, but the demand for such a measure has become even more apparent in the meantime, and I expect to reintroduce the same, possibly with slight modifications, into the Congress which is to meet in December.

The bill will be introduced on behalf of the policyholders of all American insurance companies, in the firm belief that their present and future interests demand the protection of a Federal statute regulating insurance transactions between the States, in addition, of course, to such supervision and regulation as constitutionally belong to the States from which the companies derive their charters; furthermore, that by eliminating a considerable amount of needless State supervision the following important benefits are expected to result:

1. An increase in the security of the policyholders.
2. A decrease in the expense rate and the cost of insurance.
3. A decrease in the burden of needless taxation.
4. A decrease in the amount of clerical labor now indispensable to meet the requirements of some fifty States and Territories.
5. The stamping out of fraudulent insurance enterprises.
6. Adequate national protection for American companies transacting business in foreign countries.

* "The business of insurance vitally affects the great mass of the people of the United States and is national and not local in its application. It involves a multitude of transactions among the people of the different States and between American companies and foreign governments. I urge that the Congress carefully consider whether the power of the Bureau of Corporations cannot constitutionally be extended to cover interstate transactions in insurance." [December 6, 1904.]

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Since thus far interstate insurance transactions have not been brought within the scope of Congressional action, I desire to secure an expression of views from the interests affected by such a measure, and, therefore, take the liberty of troubling you with a few questions to which I would like to have you reply either YES or NO, as the case may be, together with any additional comments of your own which you may wish to make upon the matter.

If entirely convenient, kindly fill in and return to me the attached blank in the enclosed stamped envelope and accept in advance my sincere thanks for your courtesy and co-operation in my effort to secure a comprehensive expression of qualified public opinion upon a matter vitally affecting the welfare of the American people.

I am, very truly yours,

JOHN F. DRYDEN.

FEDERAL REGULATION OF INSURANCE COMPANIES

Question 1. Do you endorse the suggestion of President Roosevelt, that insurance companies engaged in interstate insurance business should be regulated by and brought under the control of the Federal government?

Question 2. Do you hold the insurance business to be a national rather than a local interest, and properly entitled to the solicitude and care of the national government?

Question 3. As a matter of personal opinion, do you hold the business of insurance to be commerce, or an integral and indispensable element of commerce, in the sense in which this term is used in everyday language?

Question 4. Are you in any way apprehensive that it would be inexpedient or inadvisable to increase the power of the Federal government to the extent implied in the regulation of insurance by Congress?

In reply to Question 1—"Do you endorse the suggestion of President Roosevelt, that insurance companies engaged in interstate insurance business should be regulated by and brought under the control of the Federal government?"—out of 7,454 answers, 6,581 were favorable, or 88.3

Appendix A

per cent. of all the letters received. By principal States or geographical divisions, the results were as follows:

SUMMARY OF REPLIES TO QUESTION I

	Total Replies	Answers		Not Specified	Per Cent. Yes
		Yes	No		
New England States	741	575	163	3	77.6
New York, New Jersey, and Pennsylvania	2,491	2,213	266	12	88.8
Southern States	1,108	928	172	8	83.8
North Central States	2,624	2,402	206	16	91.5
Rocky Mountain and Pacific Coast States	490	463	26	1	94.5
Totals	7,454	6,581	833	40	88.3

The returns by individual States and Territories were as follows:

REPLIES TO QUESTION I BY STATES AND TERRITORIES

	Total Replies	Answers		Not Specified	Per Cent. Yes
		Yes	No		
Alabama	65	61	4		93.8
Arizona	8	7	1		87.5
Arkansas	27	24	3		88.9
California	193	189	4		97.9
Colorado	113	106	7		93.8
Connecticut	122	90	31	1	73.8
Delaware	23	17	6		73.9
District of Columbia	133	118	15		88.7
Florida	31	27	4		87.1
Georgia	116	102	14		87.9
Hawaii	2	1		1	50.0
Idaho	12	12			100.0
Illinois	429	392	37		91.4
Indiana	177	156	21		88.1
Indian Territory	6	6			100.0
Iowa	287	269	17	1	93.7
Kansas	180	170	9	1	94.5
Kentucky	82	61	20	1	74.4
Louisiana	63	51	11	1	81.0
Maine	53	45	8		84.9
Maryland	113	95	17	1	84.1
Massachusetts	460	352	106	2	76.5
Michigan	249	232	15	2	93.2
Minnesota	146	135	9	2	92.5
Mississippi	35	31	4		88.6
Missouri	220	192	26	2	87.3
Montana	18	16	2		88.9
Nebraska	195	180	14	1	92.3

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REPLIES TO QUESTION 1 BY STATES AND TERRITORIES

(Continued)

	Total Replies	Answers		Not Specified	Per Cent. Yes
		Yes	No		
Nevada	1	1	.	.	100.0
New Hampshire	33	26	7		78.8
New Jersey	203	182	20	1	89.7
New Mexico	8	6	2		75.0
New York	1,321	1,156	161	4	87.5
North Carolina	52	43	8	1	82.7
North Dakota	21	18	3		85.7
Ohio	488	446	38	4	91.4
Oklahoma	10	9	1		90.0
Oregon	52	49	3		94.2
Pennsylvania	967	875	85	7	90.5
Rhode Island	38	34	4		89.5
South Carolina	35	23	12		65.7
South Dakota	24	20	3	1	83.3
Tennessee	76	66	8	2	86.8
Texas	110	93	16	1	84.5
Utah	13	10	3		76.9
Vermont	35	28	7		80.0
Virginia	93	65	27	1	69.9
Washington	53	51	2		96.2
West Virginia	38	36	2		94.7
Wisconsin	208	192	14	2	92.3
Wyoming	17	15	2		88.2
Totals	7,454	6,581	833	40	88.3

In reply to Question 2—"Do you hold the insurance business to be a national rather than a local interest, and properly entitled to the solicitude and care of the national government?"—out of 7,454 answers, 6,543 were favorable, or 87.8 per cent. of all the letters received. By principal States or geographical divisions, the results were as follows:

SUMMARY OF REPLIES TO QUESTION 2

	Total Replies	Answers		Not Specified	Per Cent. Yes
		Yes	No		
New England States	741	570	139	32	75.7
New York, New Jersey, and Pennsylvania	2,491	2,197	229	65	88.2
Southern States	1,108	922	163	23	83.2
North Central States	2,624	2,394	189	41	91.2
Rocky Mountain and Pacific Coast States	490	460	24	6	93.9
Totals	7,454	6,543	744	167	87.8

Appendix A

In reply to Question 3—"As a matter of personal opinion, do you hold the business of insurance to be commerce, or an integral and indispensable element of commerce, in the sense in which this term is used in everyday language?"—out of 7,454 answers, 5,300 were favorable, or 71.1 per cent. of all the letters received. By principal States or geographical divisions, the results were as follows:

SUMMARY OF REPLIES TO QUESTION 3

	Total Replies	Answers		Not Specified	Per Cent. Yes
		Yes	No		
New England States	741	425	213	103	57.4
New York, New Jersey, and Pennsylvania	2,491	1,795	437	259	72.0
Southern States	1,108	788	231	89	66.7
North Central States	2,624	1,955	429	240	74.5
Rocky Mountain and Pacific Coast States	490	337	93	60	68.8
Totals	7,454	5,300	1,403	751	71.1

In reply to Question 4—"Are you in any way apprehensive that it would be inexpedient or inadvisable to increase the power of the Federal government to the extent implied in the regulation of insurance by Congress?"—out of 7,454 answers, 6,047, or 81.1 per cent., were in the negative, or, in other words, favorable to the theory of Federal supervision of insurance. This question was apparently misunderstood in quite a number of cases, and the reply made in the affirmative where the negative was intended. I, however, leave the results as they were received, without correction:

SUMMARY OF REPLIES TO QUESTION 4

	Total Replies	Answers		Not Specified	Per Cent. No
		Yes	No		
New England States	741	179	528	34	71.3
New York, New Jersey, and Pennsylvania	2,491	400	2,007	84	80.6
Southern States	1,108	222	846	40	76.4
North Central States	2,624	344	2,232	48	85.1
Rocky Mountain and Pacific Coast States	490	49	434	7	88.6
Totals	7,454	1,194	6,047	213	81.1

APPENDIX B

SYNOPSIS OF SENATE BILL 3026

Organization of Bureau of Insurance

Sec. 14—Article of Enactment.

Bureau of Insurance Established in Department
of Commerce and Labor.

Comptroller of Insurance in Charge.

Oath of Office and Bond.

Deputy Comptroller.

Actuary.

Clerks and Employees.

Appointments by Secretary of Commerce and Labor.

Supervision by Secretary of Commerce and Labor.

Interest in Insurance Companies Prohibited.

Sec. 15—Offices, etc.

Seal.

Fees to go to Treasury. Expenses to be paid from
Appropriation for Department of Commerce
and Labor.

Reports to be made to Congress.

Scope of Act and Definition of Terms

Sec. 16—Scope of Act.

Corporations Defined.

Interstate Insurance Declared to be Interstate Com-
merce.

Single State Companies Excepted.

Sec. 17—Fraternal Organizations Excepted.

Interinsurance Exchange Excepted.

Administration and Regulation

Sec. 18—Rules, Regulations, and Fees.

Reports Required from Insurance Corporations.

Appendix B

Penalty for Failure to Make Reports.

Valuation and Reinsurance Reserve.

Sec. 19—Authority and Power to Make Examinations.

Authority to Employ Special Examiners.

Aid of United States Courts.

Examinations upon Request of State Insurance
Officials.

Companies to Pay Expenses of Examinations.

Fees and Charges to be Paid into the Treasury.

Limitation of Visitorial Powers.

Requirements of Corporations Transacting Interstate Insurance

Sec. 20—Filing of Charter and other Documents.

List of Stockholders or Trustees Required.

Deposit Required to be Made.

Certificate of Authority to Transact Interstate
Insurance.

Local Attorneys to be Appointed.

Sec. 21—When Certificates of Authority shall be Revoked.

Proceedings in case of Receiverships.

Hearing to be Granted.

American Insurance Companies in Foreign
Countries.

Crimes, Penalties, Etc.

Sec. 22—Assistance of Attorney-General.

Proceedings by Attorney-General.

Penalty for Perjury.

Penalty for Accepting Bribes, etc.

Unauthorized Insurance.

Repeal of Inconsistent Laws.

Transfer of Records.

When Act Goes into Effect.

APPENDIX C

ANALYSIS OF SENATE BILL 3026, FIFTY-NINTH CONGRESS, FIRST SESSION

The bill contains some fifty separate provisions, of which the first thirteen relate to the organization of the proposed bureau of insurance in the Department of Commerce and Labor. The bureau is to be in charge of a Comptroller of Insurance, who is required to furnish a bond of \$100,000.

In nearly all essentials, the bill, as far as possible, conforms to the organic acts establishing other departments of the Federal government, but in particular to the national bank act. There is to be a Deputy Comptroller, who is also to be a bonded officer, and an actuary, who is required to be a person of recognized professional ability and experience. The general supervision and control of the bureau is under the direction of the Secretary of Commerce and Labor, and all fees or other moneys collected are required to be paid into the Treasury.

The Comptroller must make an annual report to Congress, including the details of all examinations made of companies during the year, together with a complete statement of the receipts and disbursements of the bureau.

The provisions of the act apply to all corporations, associations, or partnerships engaged in interstate insurance business who make and deliver insurance contracts outside the State of incorporation or origin or authority, but have no application to fraternal insurance societies, or organizations having a lodge system and carried on for the sole benefit of members and not for profit. Such associations or societies, however, may voluntarily take advantage of the act, and, after complying with all its provisions, become duly authorized by the Comptroller to transact interstate insurance.

The Comptroller is required to establish rules and regulations and reasonable fees for conducting the business of

Appendix C

insurance, including annual and other reports to be made by companies. The penalty for failure to make or transmit any report or statement of fact required is \$100 for each day of delay.

The Comptroller is also required to have a conservative valuation made of the business of life companies, or determine the reinsurance reserve of other companies, upon approved methods and tables and by such a standard of interest as may, in his judgment and discretion, best serve the purpose to determine and establish the true financial condition of companies.

Authority and power to inquire into the details and facts of the management of all corporations engaged in interstate insurance is given to the Comptroller, and he may have the companies examined by special examiners whenever necessary or expedient. To this end he may invoke the aid of any court of the United States to require the attendance and testimony of witnesses, and the production of books, papers and documents.

Failure to obey such order of the court may be punished as a contempt thereof. It is also provided that companies may be investigated by the Comptroller upon the complaint of any State Commissioner of Insurance.

The actual and reasonable expense of every examination or special investigation of the affairs of an insurance corporation engaged in interstate insurance must be paid by the corporation so examined. All charges and fees for making such examinations, however, must be presented in the form of an itemized bill, approved by the Comptroller of Insurance, and the amount thereof must be paid into the Treasury of the United States.

Corporations transacting interstate or foreign insurance are specifically exempted from making any other or separate statements or reports, and are not to be subject to any visitatorial powers or examinations of their business and accounts

Life Insurance and Other Subjects

other than by the Comptroller of Insurance, or by the proper authorities of the State of incorporation or origin.

Corporations engaged in the business of insurance in more than one State must file a copy of their charter or other documents of local authority, and annually publish a list of their stockholders or trustees. They are required to make a deposit of \$100,000, either with the Commissioner of Insurance or with the proper official of the State of incorporation or origin.

After these requirements have been met to the satisfaction of the Comptroller, a certificate of authority and power to transact interstate insurance shall be issued, whereby such corporations are authorized to transact business in any State, Territory, or district of the United States, without further supervision or regulation than by the Comptroller of Insurance or the duly authorized official of the State of incorporation or origin. Provision is made for conditions under which the certificates of authority shall be revoked and for proceedings in case of receivership.

APPENDIX D

S. 3026

59th Congress, 1st Session

IN THE SENATE OF THE UNITED STATES

January 15, 1906

Mr. Dryden introduced the following bill, which was read twice and referred to the Committee on the Judiciary

A BILL

To amend an Act entitled "An Act to establish the Department of Commerce and Labor," approved February fourteenth, nineteen hundred and three, being chapter five hundred and fifty-two of the United States Statutes, enacted by the Fifty-seventh Congress.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
That the Act entitled "An Act to establish the Department of Commerce and Labor," approved February fourteenth, nineteen hundred and three, be amended by adding thereto the following:

"SEC. 14. That there shall be in the Department of Commerce and Labor a division to be called the Bureau of Insurance, which shall be charged with the execution of this and all other laws that may be passed by Congress for the supervision and regulation of the business of insurance among the several States. The Bureau of Insurance shall be in charge of an officer to be called the Comptroller of Insurance, who shall be appointed by the President, by and with the advice and consent of the Senate. He shall hold his office for the term of four years, unless sooner removed by the President. He shall receive an annual salary of dollars, to be paid in monthly instalments. The Comptroller of Insurance shall, within fifteen days from the time of notice of his appointment, take and subscribe the oath of office; and he shall give to the United States a bond in the penalty of one hundred thousand dollars, to be approved by the Secretary of Commerce and Labor, conditioned for the faithful

Life Insurance and Other Subjects

discharge of the duties of his office. There shall also be in the Bureau of Insurance a Deputy Comptroller of Insurance, who shall be entitled to an annual salary of dollars, to be paid in monthly instalments, and he shall possess the power and perform the duties attached by law to the office of the Comptroller during a vacancy in the office or during the absence or inability of the Comptroller. The Deputy Comptroller shall also take the oath of office prescribed by the Constitution and laws of the United States, and shall give a like bond in the penalty of fifty thousand dollars. There shall also be in said Bureau of Insurance an actuary, who shall be selected for his knowledge, skill, and practical experience in actuarial duties, and who shall be a person of established reputation and qualification, and who shall aid and assist the Comptroller of Insurance, in the capacity of an actuary, and perform the usual duties appertaining to his office. There shall also be a chief clerk to the Comptroller of Insurance, and such special agents, examiners, clerks, and other employees as may be authorized by law and may be necessary for the work of said Bureau. All officers and employees of the Bureau of Insurance other than the Comptroller shall be appointed by the Secretary of Commerce and Labor. The work of the Comptroller of Insurance and his subordinates shall, in all respects, be subject to the supervision of the Secretary of Commerce and Labor, and it shall not be lawful for the Comptroller of Insurance or the Deputy Comptroller, or any official or employee of the Bureau of Insurance, either directly or indirectly, except as a policyholder, to be interested in any insurance corporation, association, or partnership.

"SEC. 15. That there shall be assigned to the Comptroller of Insurance, by the Secretary of Commerce and Labor, suitable office rooms, and he shall supply said Bureau with the necessary furniture, stationery, fuel, light, and other proper conveniences for the transaction of the business of said Bureau. The Comptroller of Insurance, with the approval of the Secretary of Commerce and Labor, shall devise a seal with suitable inscription, a description of which, with the certificate of approval of the Secretary of Commerce and Labor, shall be filed in the office of the Secretary of State, with the impression thereof, which shall thereupon become the seal of the office of said Comptroller of Insurance. Every certificate and all other papers issued by him in pursuance of any authority

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conferred on him by law, and sealed with his seal of office, shall be received in evidence in all courts of law and equity and other places. All fees or other moneys collected or recovered under the rules and regulations of the Comptroller of Insurance, as approved by the Secretary of Commerce and Labor, shall be paid monthly into the Treasury of the United States, and all the salaries and expenses of administering this law shall be paid by the Treasurer of the United States from the appropriation for the Department of Commerce and Labor. The Comptroller of Insurance shall annually prepare for the Secretary of Commerce and Labor, to be transmitted by him to Congress, a report containing, in reasonable detail, an abstract of the statistical and other reports made to him by corporations, associations, and partnerships, subject to the provisions of this Act, together with a summary statement of the insurance business in the United States, properly classified, and such other statements, information, facts, or comments relating to insurance as he may deem to be of public interest. The annual report of the Comptroller of Insurance shall also include and contain the rules and regulations established by him, and approved by the Secretary of Commerce and Labor, to carry out the intent and purposes of this Act, and the facts and results of all examinations of insurance companies which he may have made or may have caused to be made during the preceding year, together with a complete and detailed statement of the receipts and expenses of the Bureau of Insurance during the year from any source whatever.

"SEC. 16. That the provisions of this Act shall apply to all corporations, associations, and partnerships, including individual underwriters known as Lloyd's, engaged in interstate insurance business, or who make and deliver insurance contracts outside of the limits of the State of incorporation or organization or authority, and their attorneys in fact, and all such are hereby declared and held to be engaged in interstate or foreign commerce, as the case may be. The term corporation, wherever used in this Act, shall include companies, associations, societies, partnerships, and individual underwriters engaged in the business of insurance, or in any of its branches, and duly incorporated or authorized under the laws of the United States, or of any State, Territory, District, or foreign nation. Policies or any other contracts of insurance are hereby deemed and declared

Life Insurance and Other Subjects

to be articles of commerce and instrumentalities thereof. The delivery by said corporations of said policies or contracts of insurance from the State, Territory, District, or country of incorporation or origin to corporations or persons resident of or located in other States, Territories, Districts, or foreign nations; the transmission by the insured from such other States, Territories, Districts, or foreign nations of the premiums or other valuable consideration for said policies to the home office of the company in another State, Territory, District, or foreign nation, are hereby declared and deemed to be transactions in interstate or foreign commerce, as the case may be; but the provisions of this Act shall not apply to any corporation transacting the business of insurance exclusively within the State, Territory, or District of its creation.

"SEC. 17. That this Act shall have no application to any corporation, society, order, or voluntary association formed or organized and carried on for the sole benefit of its members and their beneficiaries, and not for profit, having a lodge system and representative form of government, making insurance provision for the payment of benefits in case of death, sickness, disability, accident, or old age. But the Comptroller of Insurance shall be authorized and have power to determine upon the facts whether the corporation or association or organization is in fact of a purely religious, charitable, or benevolent character: *Provided*, That any such corporation, association, society, or order transacting fraternal or mutual benefit insurance in more than one State may voluntarily take advantage of this Act, and after complying with all its provisions, and with the rules and regulations of the Bureau of Insurance, be duly authorized by the Comptroller to transact interstate insurance: *And provided further*, That the provisions of this Act shall not apply to associations known as interinsurance exchanges, the members whereof indemnify one another against loss by fire, organized for the purpose of saving expenses and diminishing losses, and not for personal profit or gain or as commercial undertakings.

"SEC. 18. That the Comptroller of Insurance, subject to the approval of the Secretary of Commerce and Labor, shall from time to time fix and establish such rules, regulations, and reasonable fees for conducting the business of the Bureau and for carrying out the provisions of this Act as he may deem necessary and proper for

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securing an effective, uniform, and economical administration of the Bureau. Said rules and regulations shall provide methods and forms for annual or other reports to the Comptroller of Insurance by corporations transacting interstate or foreign insurance, which annual or other reports shall be duly attested under seal by such corporations and sworn to by the president, vice president, secretary, or some other officer thereof before an official duly authorized to administer oaths who is not an officer or employee of the corporation reporting. And the said Comptroller shall forward, in December of each year, to every corporation authorized under this Act to transact interstate insurance, or its agent or attorney, the necessary blank forms for the annual statements of such company, which shall be returned to the Comptroller on or before the first day in March of each year, signed and sworn to by the president, vice president, or secretary, or, if a foreign company, by its manager or proper representative within the United States, showing its true financial condition as of the next preceding thirty-first day of December, which shall include a correct and detailed statement of the assets and liabilities of that date, the amount and character of business transacted, losses sustained, and money received and expended during the year, and such other information as the said Comptroller may deem necessary. Every corporation transacting interstate or foreign insurance which fails to make and transmit any report or information or statement of fact required by this Act shall be subject to a penalty of one hundred dollars for each day after the periods therein respectively mentioned that it delays to make and transmit its report. And whenever any corporation refuses to pay the penalty herein imposed, after it has been assessed by the Comptroller of Insurance, the Comptroller shall have authority to recover the penalties imposed by due process of law, but he may, in his discretion, extend the time for making such report for a period not exceeding thirty days. All sums of money collected for penalties under this section shall be paid monthly into the Treasury of the United States. It shall be the duty of the Comptroller of Insurance to require of each corporation transacting interstate insurance, preliminary to the granting of a certificate of authority to engage thereafter in such insurance among the States, a true and complete statement as of the thirty-first day of December next preceding of all policies or other contracts of insurance in force, together

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with their valuation or reinsurance reserve, made or determined according to the laws of the State, Territory, District, or foreign nation of its incorporation, origin, or authority, and annually thereafter the Comptroller shall cause to be made, by and under the direction of the actuary of the Bureau, a true and complete valuation or determination of the reinsurance reserve of all policies or contracts of insurance in force with any corporation subject to the provisions of this Act, upon such approved tables and methods and by such a standard of interest as may in his judgment and discretion best serve the purpose to determine and establish the true financial condition and outstanding liabilities of the same.

"SEC. 19. That the Comptroller shall have authority and power to inquire into the details and facts of the management of all corporations subject to the provisions of this Act, and he shall keep himself informed as to all business matters of said corporations, and he shall have authority and power to obtain from them true and complete information and facts necessary to enable him to properly perform the duties and carry out the objects for which this Bureau of Insurance was established. And he shall have authority and power to examine, or have examined by the Deputy Comptroller or any other qualified employee or special examiner designated for the purpose, all books, papers, and everything pertaining to the business or management of said corporation at any or all times when he may deem this necessary or expedient; and he shall have the power to require the attendance and testimony of witnesses and the production of books, papers, and documents relating to any matter under investigation. And to that end he may invoke the aid of any court of the United States to require the attendance and testimony of witnesses and the production of books, papers, and documents. And any circuit court of the United States within the jurisdiction of which such inquiry is carried on may, in case of contumacy or refusal to obey subpœna issued to any corporation or person subject to the provisions of this Act, issue an order requiring such corporation or person to appear before said Comptroller and produce books, papers, and documents, if so ordered, and give evidence touching the matter of inquiry; and any failure to obey such order of the court may be punished by such court as a contempt thereof. The Comptroller of Insurance shall also investigate any

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complaint, made in his own behalf, or forwarded by the commissioner, superintendent, or other official charged with the execution of the insurance laws of any State, Territory, or District, at the request of such commissioner, superintendent, or other officials, and may institute any inquiry on his own motion in the same manner and to the same effect as though complaint had been made; and the result and findings of such examination or investigation, upon having been approved by the Secretary of Commerce and Labor, shall be communicated without undue delay to the commissioner, superintendent, or other State official making the complaint or requesting the investigation to be made: *Provided*, That the actual and reasonable expense of every examination or special investigation of the affairs of an insurance corporation authorized to transact interstate insurance under the provisions of this Act shall be borne and paid by the corporation so examined: *And provided further*, That no charge shall be made for any examination of an insurance corporation by the Comptroller or his deputy personally, or by one or more of the regular clerks or employees of the Bureau, except for necessary traveling and other expenses. All charges and fees for making any examination, and all charges and fees against an insurance corporation by an attorney or appraiser of the Bureau of Insurance, shall be presented in the form of an itemized bill approved by the Comptroller of Insurance; and the corporation examined, on receiving a certified copy of such bill, so approved and properly audited, shall pay the amount thereof to the Comptroller of Insurance, to be paid by him into the Treasury of the United States. No corporation examined shall, either directly or indirectly, pay, by way of gift, credit, or otherwise, any other or further sum to the Comptroller or Deputy, or any clerk or employee of the Bureau of Insurance, or any examiner, for extra services, or for purposes of legislation, or on any other pretense whatsoever: *Provided*, That no corporation transacting interstate or foreign insurance shall be required by any other than the State, Territory, or District of its incorporation or origin to make other or separate statements or reports, or held to be subject to any visitorial powers or examination of its business and accounts other than such as are authorized by this Act or as are within the constitutional rights and powers of the State, Territory, or District of incorporation or origin.

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"SEC. 20. That every corporation transacting interstate or foreign insurance shall, within sixty days after the passage of this Act, and every corporation hereafter formed shall, before engaging in interstate or foreign insurance, comply with this provision by filing with the said Comptroller a certified copy of its charter and by-laws or deed of settlement, or other certificate of local authority to lawfully transact insurance business, together with an officially certified copy of the last complete statement of its condition and affairs, as filed in the office of the superintendent, commissioner of insurance, or other authorized official of the State, Territory, District, or nation of its incorporation or origin, and a certificate under the seal of the proper officer of its government, certifying that the said corporation is duly authorized, by local authority, to engage in or transact the business of insurance. Every insurance corporation transacting business on the stock or share plan shall cause to be kept at all times a full and correct list of the names and residences of all the stockholders or shareholders in the company and the number of shares or certificates of stock held by each in the office where its business is transacted; and every insurance corporation doing business on the mutual plan shall cause to be kept at all times a full and complete list of the names, occupations, and residences of all the trustees duly elected and responsible for the management of said corporation. A copy of such list, as of the thirty-first day of December of each year, after December thirty-first, nineteen hundred and five, verified by oath of the president, vice president, or secretary of the corporation, shall be transmitted to the Comptroller of Insurance: *Provided*, That such list of stockholders or shareholders or trustees shall only be for the lawful use and information of the Bureau of Insurance, and not for the public inspection, or for the information of other stockholders or shareholders or trustees of the company, corporation, or association, as the case may be. Every corporation, at the time of filing the copy of its statement as aforesaid, must deposit with the Treasurer of the United States, as a guaranty for the faithful performance of its contracts of insurance, United States bonds or other securities satisfactory to said Comptroller, or as subsequently to be defined by law, to the amount of one hundred thousand dollars: *Provided, however*, That the Comptroller of Insurance may accept, in his discretion, in lieu of such

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deposit, a certificate issued under the seal of the insurance department of the State, Territory, or District of incorporation or origin, certifying that said insurance corporation has deposited, under the laws of the State, Territory, or District of its incorporation or origin, with the authorities of said State, Territory, or District, cash or securities to the amount of one hundred thousand dollars for the protection of its policyholders. If, upon a careful and thorough examination of the facts, as required by law, and of any other facts which may come to the notice of the Comptroller of Insurance, it appears to his satisfaction that such corporation or association is thereafter lawfully entitled to transact the business of interstate and foreign insurance, the Comptroller shall issue to such corporation a certificate, under his hand and official seal, that such corporation has complied with all the provisions required to be complied with, and that such corporation is authorized to transact such business in any State, Territory, or District of the United States. And every corporation, before transacting interstate or foreign insurance, shall appoint in each State, Territory, or District in which it proposes to carry on business, other than the State, Territory, or District of incorporation or origin, a person on whom process of law may be served, and a certified list of such appointees shall be filed with the Comptroller of Insurance.

"SEC. 21. That whenever, from the statements and reports herein required, or from any other information, it shall appear to the Comptroller of Insurance that the financial condition of such corporation, doing business under this Act, is impaired or unsafe, it shall be the duty of the said Comptroller of Insurance to order such corporation to make good its financial condition, and if this be not done within sixty days after such order is given, the Comptroller of Insurance shall revoke the certificate of authority to such corporation to transact interstate business under this Act, and public notice thereof shall be given in such manner as may be prescribed in the rules and regulations herein provided for, which information shall also be transmitted to the official charged with the execution of the insurance laws of the State, Territory, District, or foreign nation where such corporation was organized. The securities transferred to and deposited by any insurance corporation, subject to the provisions of this Act, with the Treasurer of the United States, as hereinbefore

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provided, shall remain in the custody of the Treasurer of the United States until all the obligations of such corporation that have arisen out of interstate or foreign insurance shall have been discharged or otherwise terminated; and the corporation maintaining such deposit unimpaired shall be entitled to receive the interest thereon as it accrues. Whenever a receiver shall be appointed in a court of the United States, of competent authority, and shall present to the Comptroller of Insurance a duly certified copy of such appointment, together with an order of said court for the delivery to said receiver of the bonds or securities held by the Treasurer of the United States as a guaranty for the contracts of such corporation, in order that they may be distributed among the beneficiaries in accordance with the principles of equity said Comptroller shall apply to the Treasurer for said securities and the Treasurer shall deliver them to the receiver appointed by the court. If such depositor shall appear and desire to be heard, the Comptroller shall grant a hearing to the parties, at such time and place as he may limit and appoint, and upon such hearing shall determine the question upon which the parties shall have taken issue, and from this decision either party may, within ten days, appeal to the Secretary of Commerce and Labor, whose determination shall be final and conclusive. It shall also be the duty of the Comptroller of Insurance to keep himself advised of the legislation and executive action of foreign nations affecting the business of corporations transacting insurance under this Act in foreign countries, and whenever he shall consider such legislation or executive action to be injurious to the business in such foreign nations of corporations transacting insurance under this Act, he shall lay all the facts before the Secretary of Commerce and Labor for transmission to the Department of State for such action thereon as will extend over corporations under this Act all the rights, protections, and facilities as are within the power of the Government of the United States.

"SEC. 22. That the Comptroller of Insurance may, whenever he deems it necessary, call upon the Attorney-General for legal counsel and such assistance as may be required to enforce the provisions of this Act. If, upon examination or other evidence exhibited or made known to him, he shall be satisfied that any corporation transacting interstate insurance, as defined by this Act, shall have violated

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any provision of this Act, he shall report the facts to the Attorney-General, who shall institute proceedings against the same. Any wilful false swearing in regard to any report or statement of fact required by the provisions of this Act shall be perjury, and shall be punished as such, according to the laws of the State, Territory, or District in which the corporation is incorporated or organized; and every officer, employee, or examiner of the Bureau of Insurance who, upon any pretence whatever, receives any fee or reward for his services, except what is allowed to him by law or by the rules and regulations of the Bureau, shall forfeit his office and be otherwise punished by the imposing of a fine of not more than five hundred dollars or by imprisonment for not more than six months, or by both. It shall not be lawful for any corporation or party which has not complied with the provisions of this Act to insure any risk or issue any policy on property of any kind located beyond the limits of the State, Territory, or District under whose laws said corporation or party was incorporated or organized, or upon the life or lives of any person or persons, or upon contingencies happening in future to person, life, property, or estate, where the insured is not a resident of the State, Territory, or District in which said corporation or party was incorporated or organized; and it shall not be lawful for any person to act as agent or solicitor, or in any other manner, for any corporation transacting business under this Act until all the provisions of this law shall have been complied with and evidenced by the Comptroller's certificate of authority. Any person or persons violating this or any other provision of this Act shall be deemed guilty of a misdemeanor, and shall, upon conviction thereof in any district court in the United States within the jurisdiction of which such offense was committed, be subject to a fine not exceeding one thousand dollars for each offense.

"SEC. 23. That all duties and powers, authority and jurisdiction now imposed and conferred upon the Commissioner of Corporations by the Act of Congress of February fourteenth, nineteen hundred and three, relating to insurance companies, shall not thereafter be imposed upon or exercised by the Commissioner of Corporations. And all Acts or parts of Acts inconsistent with this Act, and so far as inconsistent, are hereby repealed; and all books, papers, and documents and correspondence whatsoever, now in the office

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of the Commissioner of Corporations, relating to the business of insurance, shall, on demand, be delivered and transferred to the Comptroller of Insurance, and be and remain in his charge and custody.

"SEC. 24. That this Act shall be in force from and after its passage."

APPENDIX E

INDUSTRIAL INSURANCE IN FORCE IN THE UNITED STATES

ALL INDUSTRIAL COMPANIES			THE PRUDENTIAL INSURANCE COMPANY		
Years Ending Dec. 31st	Number of Policies	Amount	Years Ending Dec. 31st	Number of Policies	Amount
1876	4,816	\$ 443,072	1876	4,816	\$ 443,072
1877	11,226	1,030,655	1877	11,226	1,030,655
1878	22,808	2,027,888	1878	22,808	2,027,888
1879	60,371	5,651,589	1879	43,715	3,866,913
1880	236,674	20,533,469	1880	87,462	7,347,892
1881	367,453	33,501,740	1881	133,582	10,959,948
1882	590,053	56,564,682	1882	196,007	15,738,973
1883	877,334	87,793,650	1883	273,917	23,053,935
1884	1,092,529	111,115,252	1884	324,794	28,545,189
1885	1,377,150	145,938,241	1885	422,671	40,266,445
1886	1,780,372	198,431,170	1886	548,433	59,328,627
1887	2,310,003	255,533,472	1887	736,909	81,694,088
1888	2,797,521	305,155,182	1888	850,064	92,418,854
1889	3,365,461	365,841,518	1889	1,099,312	117,357,415
1890	3,883,529	429,521,128	1890	1,228,332	135,084,498
1891	4,319,817	481,919,116	1891	1,360,383	150,758,907
1892	5,200,777	583,527,016	1892	1,653,465	184,306,206
1893	5,751,514	662,050,129	1893	1,941,533	218,199,566
1894	6,833,439	800,946,170	1894	2,256,014	259,840,927
1895	6,952,757	820,740,641	1895	2,330,741	268,414,100
1896	7,388,119	888,266,586	1896	2,437,251	279,030,638
1897	8,005,384	996,139,424	1897	2,658,700	303,770,952
1898	8,798,480	1,110,073,519	1898	2,924,526	333,992,200
1899	10,050,847	1,293,125,522	1899	3,406,189	389,039,257
1900	11,219,296	1,468,986,366	1900	3,908,622	448,596,996
1901	12,337,022	1,640,857,553	1901	4,290,539	498,127,133
1902	13,448,124	1,806,890,864	1902	4,692,182	550,464,265
1903	14,625,000	1,965,600,000	1903	5,176,456	613,935,910
1904	15,674,384	2,135,859,103	1904	5,642,335	675,992,239
1905	16,872,583	2,309,754,235	1905	6,117,575	738,502,100
1906	17,841,396	2,453,616,207	1906	6,474,689	788,261,730
1907	18,849,357	2,577,896,941	1907	6,852,793	840,291,172
1908	19,687,675	2,668,919,696	1908	7,258,704	891,057,438

APPENDIX F

The following table shows the present financial status of the Industrial insurance companies of the United States. Nearly all of the Industrial companies transact Ordinary insurance also, and the summary statistics of the two branches are therefore separately stated.

Statistics of Industrial Insurance Companies in the United States December 31, 1908*

	Industrial	Ordinary	Industrial and Ordinary
Policies in force	19,659,868†	1,295,942	20,955,210†
Amount of insurance in force .	\$2,668,595,294†	\$1,317,887,524	\$3,986,482,818†
Premium Income	95,373,691	50,363,260	145,736,951
Payments to Policyholders . .	36,691,216	17,131,338	53,822,554
Assets			481,545,768
Liabilities			431,845,111
Surplus			49,700,657

* These returns are not quite complete, but they are approximately so.

† In addition there were 27,807 Industrial policies in force, for \$324,402, with five companies which no longer transact Industrial insurance.

APPENDIX G

In the following table is presented a brief summary of the Industrial insurance in force in the principal countries of the world on December 31, 1906. It is conservatively estimated that at the present time (1909) there are about 58,000,000 Industrial policies in force in the world.

Industrial Insurance in Force in the Principal Countries of the World December 31, 1906

Country	Number of Companies	Policies*	Amounts*
Australia	8	351,249	\$ 35,485,683
Austria-Hungary	10	429,753	27,588,951
Canada	4	399,360	43,557,746
Germany	28	6,244,554	281,263,306
United Kingdom	18	26,858,618	1,299,902,319
United States	19	17,841,396	2,453,616,207
Totals	86†	52,096,414	\$4,143,314,412

* These do not include the Industrial business of companies in Denmark, Belgium, Sweden, Switzerland, and a number of other European countries. There is also some Industrial business in force in New Zealand and in South Africa, among other countries and sections of the world in which the business is now transacted.

† One company operated in both the United States and Canada.

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